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Multi-Unit Franchisee

ISSUE IV 2011

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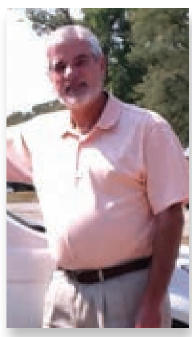
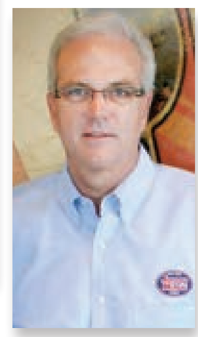
ISSUE IV, 2011





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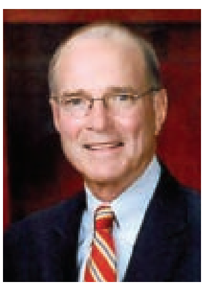
BY CHARLES SMITHGALL

We Learn in Order To Teach

As we look back on last April's 2011 Multi-Unit Franchising Conference and toward next April's conference (to be held at The Mirage in Las Vegas), what did we learn… and what can we expect?

Participating as chairman in such a worthwhile event is definitely a learning experience, but it's difficult to appreciate the value until you've actually been there. I have learned a lot during the past year from my front-row seat during the planning process, the staging of the conference, the post-event critique, and now, while planning for next year's, which is certain to be bigger and better. And throughout, I continue to learn about how the franchise relationship works so well for both franchisees and franchisors.



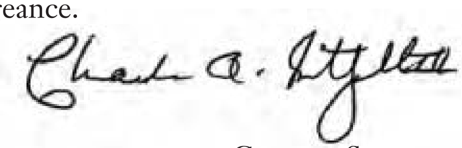
Franchising is truly a wonderful marriage; just look at the statistics. Darrell Johnson, CEO of FRANdata, would be better at citing the specifics, but the latest data I saw was that 94 percent of franchises are still operating 10 years after their inception, versus only 18 percent of stand-alone business concepts. If you prefer to bet with the odds in your favor, then franchising is a no-brainer. If you are strong at execution and want to simplify your focus to specific operations, franchising is the place. And we all have the same challenge: How can we become better operators? That comes right back to people.

It has been said, "The team with the best players usually wins!" I continue to relearn this important fact year after year. I have yet to investigate a franchise concept that wouldn't be successful without the right people operating it.

I love franchising because I get great satisfaction from competing, and, in our business, there are so many ways to measure our performance. Franchise Update Media Group provides the best single stage for us to improve our businesses. The rest is up to us. The articles in *Multi-Unit Franchisee* magazine and the programs at their conferences are invaluable to us. But it's what we do with them that counts.

The 2012 Multi-Unit Franchising Conference will be chaired by John Metz, and, if John operates the conference like he does his own business, all previous ones will be left in the dust. John developed a solid background in finance and real estate before becoming a successful multi-unit franchise operator with multiple Denny's, Dairy Queen, and Marriott locations, and now he's also a franchisor after acquiring Hurricane Grill and Wings. John is an excellent choice to lead us into the future. And the staff at Franchise Update Media Group just keeps getting better and better. I challenge you to read this edition from cover to cover, and I think you'll agree that you got your money's worth.

But don't stop there. Go and teach what you've learned and make all the people around you better. If we all keep doing that we will continue to excel. We have a great deal invested in our businesses. Let's continue to help each other learn and grow. The best gifts in the world are those that continue to multiply when they are shared. I have enjoyed very much my year as the 2011 Multi-Unit Franchising Conference Chair and I am determined to continue to learn and grow with a vengeance.



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Conferences

2012 Multi-Unit Franchising Conference Preview

Following on the heels of last April's record-setting Multi-Unit Franchising Conference, the 2012 Conference Advisory Board met in Chicago recently to plan next year's event. "Empire Builders" is the theme for the 2012 conference, which will be held April 24 – 26 in Las Vegas at The Mirage Resort & Casino. Agenda items discussed by the group of multi-unit franchisees include healthcare, taxation, and regulations, as well as improved networking with fellow multi-unit operators and how to recruit and retain employees from the front line to the management level. For a look ahead to the 2012 conference, visit **www.mufranchisee.com/2012/**.

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Online Edition

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/**.

Achievements

"First of all, I think it's amazing I've lasted this long in this industry. I'm proud that I was part of the early days of Rally's Hamburgers (now Checkers/Rally's Drive-In Restaurants) with my great friend and mentor Billy Trotter. Another key accomplishment was being president of Shoney's for 6 years, during which we had positive sales in that company for the first time in 14 years. But I'm most proud of all my seven kids. My wife Denise and I are in business with two of my sons, Bryan and Chad. Together, we own two restaurants in Nashville. It's really cool to work with your kids."

—Rodger Head, President and CEO of bd's Mongolian Grill and a 12-unit Popeyes franchisee on his key accomplishments

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 *2011 Annual 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. For ordering information visit **www.franchiseupdate.com/afdr/** and **www.franchiseupdate.com/growtogreatness/**.

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BY EDDY GOLDBERG

Dominant, Dazzling, and Delightful

Six thriving multi-unit operators tell how they do it

One common thread linking this year's group of multi-unit dominators is how none planned a career in franchising.

Think about it: When you were young, how many kids did you know who said, "When I grow up, I want to be a franchisee!" In the seven years we've been profiling successful multi-unit operators, we've heard it again and again: after embarking on the career of their dreams, working hard, and succeeding at it, they found their way into (or, after a "starter job" at a fast food franchise, back into) franchising.

The individual reasons vary, but what all share is a passion for people, for business, and for running their own business—a burning desire to control their own destiny and to help others. And, as we've also seen, once they succeed at building a high-performance franchisee organization, they often want to "pass it on," mentoring their managers and employees on how to do it for themselves. And to give back to the communities—and the people—they serve. Here is a brief snapshot of the in-depth profiles that follow:

■ **Michael Ansley** was introduced to franchising as a teenager, helping his father with work at KFCs and Wendy's in Springfield, Ohio. After college, he launched a successful, but ultimately unsatisfying, career in sales for a large company. "I wanted to do my own thing," he says. He reunited with a college roommate to buy a Buffalo Wild Wings (then called BW3), and the partners were off and running. Today, as CEO of Diversified Restaurant Holdings, he operates 22 Buffalo Wild Wings units and has started his own franchise concept, Bagger Dave's Legendary Burger Tavern, with 6 open and big plans for more.

■ **Robert Branca** and his close family own 60 Dunkin' Donuts in New England. His extended family, including in-laws, their siblings, spouses, children, and cousins, own more than 700 Dunkin' Donuts in all and dominate the brand in New York and New England. "We're all multi-unit franchisees," says Branca, who is married to the former Lisa Batista and was the family lawyer for years before he joined the family business. Branca attributes the family's success to the ways in which they lean on each other. "We have our own independent franchisee association with strong educational components and other assistance," he says. "Profitability for us with this concept has been good. If you do it properly, it works."

■ **Tom DiMarco** was recruited 27 years ago as controller for Salo Inc., a 4-unit franchisee of Interim HealthCare. As Salo grew, so did DiMarco's career in franchising. Seven years ago he became president of Salo, and today the fast-growing business has 45 Interim HealthCare locations in 5 states with 8,300 full- and part-time employees. DiMarco says his seven years at the helm have been a lot of fun—and he plans to keep on doing it as long as it remains that way.

■ **Rodger Head** took a job at Burger King in 1969 when he was a high school senior. That's where he learned the value of giving back. "I was always so lucky with my mentors," he says. "I'm proud that I was part of the early days of Rally's Hamburgers with my great friend and mentor Billy Trotter." He's accomplished more than he'd ever imagined, including a 6-year stint as president of Shoney's (during which the brand had positive sales for the first time in 14 years). Today, he not only is a 12-unit Popeyes franchisee, he's also CEO of bd's Mongolian Grill, with 35 units in 13 states.

■ **Sunita Sagar** was a teenager working as a part-time cashier at a California Jack in the Box and dreaming of the day she would become a doctor. After pursuing that path through college and the start of a career, she and her husband, Dev, took a left turn. In 2007, given the chance to buy an underperforming Denny's in Campbell, Calif., they jumped at it. "That restaurant was going downhill," she says. "We turned the people around, we turned the operation around, and we turned the sales around." Today the couple operates 18 restaurants among 3 brands, with more ahead.

■ **Bryan Selde**n was in the convenience store business, turning 30, and looking for ways to grow his business. He answered a blind ad for specialty retail, which turned out to be a Great American Cookies franchise. In 1987 he bought one location, built a second, and three more followed in Dallas. When he became a father, he dialed it back for about 10 years to focus on being the best husband and father he could. When his eldest child graduated from high school, Selden, with the blessing of his family, re-entered franchising. He lined up two partners and today oversees 35 locations spread among 7 franchise concepts.

Following the six profiles, we've also included a list of the country's DMAs with the most franchised units, as well as the dominant franchisee organizations in each state and region. FRANdata provided the information. Maybe you can use it to help plan your next move! MUF

BY DEBBIE SELINSKY

Franchisee Turns Franchisor

Making the best of both worlds

When Michael Ansley was a teenager helping his father, a painter, with work at KFC and Wendy's restaurants in Springfield, Ohio, he soaked up both his father's entrepreneurial spirit and a basic knowledge of the food and franchising business.

After earning degrees in business administration and marketing at the University of Dayton, the intense young man worked as a sales manager for a large company, calling on Builder's Square, Home Quarters, and other stores across

NAME: Michael Ansley

TITLE: President, CEO, Chair

COMPANY: Diversified Restaurant Holdings

NO. OF UNITS: 22 Buffalo Wild Wings (14 in Michigan, 8 in Florida); 6 Bagger Dave's Legendary Burger Tavern (in Michigan)

AGE: 40

FAMILY: Wife, Kate; children David, 4, Mary Kate, 3, and Madison, 9 months

YEARS IN FRANCHISING: 16

YEARS IN CURRENT POSITION: 13

I said, 'Teach me how to do this,' and he said, 'Use other people's money.' So I worked with a designer on my ideas for Bagger Dave's Legendary Burger Tavern.

Ohio, Indiana, and Kentucky. Although he finished number-one in merchandising in the country, Ansley decided he didn't want to work for a big corporation. "I wanted to do my own thing," he says.

In 1996, he and his former college roommate asked their fathers for loans to buy their own Buffalo Wild Wings (then called BW3) unit near Ann Arbor, Mich. "We were young and didn't know what we were doing," he says. "But we learned how not to run a restaurant and where not to put it."

When go-getter Sally Smith took over as CEO at BW3 and changed the name to Buffalo Wild Wings, Ansley got a second wind and opened a location in front of a 30-screen movie theater. "That location took off, so we opened another," he says. Their Novi, Mich., unit was one of the first three to roll out full service in 2002, and his units have grabbed top

PERSONAL

Key accomplishments: The most important accomplishment was getting married and having a family. And then, it's been a tremendous experience being a Buffalo Wild Wings franchisee during the last 16 years. Sally Smith, the CEO, has transformed the company and let us be entrepreneurial. We had one of the three restaurants that rolled out full service in 2002 and also had the first location (Novi, Mich.) to hit $3 million and then $4 million.

Biggest mistake: Choosing to go into Florida during the worst possible time. I was young and I signed an agreement for Buffalo Wild Wings in the Tampa-St. Pete-Fort Lauderdale area. My ego was somewhat inflated because of our success in Detroit, but I didn't do enough due diligence to realize that the area's real estate market was really hot. As a result, we wound up with a couple of locations that weren't so great. Since then, we've learned a lot about the culture in Florida and how to properly build out a patio in Florida.

Smartest mistake: I've made a lot of those regarding our concept, Bagger Dave's. Sometimes with the concept, we weren't sure if we were doing the right thing. We looked at the counter service burger concept, but with Five Guys and Smashburger, that horse was already out of the gate, and we didn't want to be in the Red Robin camp with a 6,500-square-foot space. So we tried to create a nice niche with the craft beer segment. We've changed 300 things, and for whatever reason, we seem to be hitting all the current trends.

How do you spend a typical day? There's not really a typical day right now. Things are chaotic because we're growing Buffalo Wild Wings in multiple states and working on developing franchising for Bagger Dave's. I travel a lot and on weekends, and I work a lot with different charity fundraisers. I'm on the board of the Children's Leukemia Foundation of Michigan, and we had an event with Bagger Dave's and Buffalo Wild Wings that raised $32,000 in one day.

Work week: Right now, it's whatever is needed.

Favorite fun activities: I'm lucky, because work is my hobby, I enjoy it. I also enjoy spending time with my family.

Exercise/workout: Cardio and weights three times a week.

Favorite tech toys: I'm not quite the techie that our CFO is, but I like my BlackBerry.

What are you reading? Trade publications related to the restaurant industry and franchising.

Do you have a favorite quote/advice? I like Warren Buffet: "Be fearful when others are greedy, and be greedy when others are fearful." Right now, you can find great employees, and reasonable real estate if you have the money. We just grabbed a former Big Boy in Grand Rapids on a short sale, and we're turning it into a Bagger Dave's.

Best advice you ever got: I learned from my time with Buffalo Wild Wings that this business is all about people. A happy employee does mean a happy guest.

Formative influences/events: I have some great colleagues and mentors. Bill McClintock, who now works for us as senior vice president of franchise sales and development, is the salt of the earth and has seen things done right and wrong over the years. Others who have been valuable are Phil Friedman of McAlister's Deli and franchisees David Fisher and Kent Ward, who are unbelievably bright and supportive.

How do you balance life and work? My wife thinks I'm doing pretty well considering all that's going on, so I'll go with that.

I admit I used to be more of a micro-manager, but I've learned to back off and trust my people. The key is to surround yourself with bright people who think like you do.

honors for sales over the years. Nearly a decade later, Ansley has 22 Buffalo Wild Wings units in Michigan and Florida.

In 2006, looking at other concepts that were not so reliant on chicken, Ansley noticed that "Every town has a burger joint or tavern." Before creating his own concept, he called his uncle, an investment banker. "I said, 'Teach me how to do this,' and he said, 'Use other people's money.' So I worked with a designer on my ideas for Bagger Dave's Legendary Burger Tavern."

Ansley was ready to dive right into franchising the concept, but friend and veteran Buffalo Wild Wings franchise developer Bill McClintock told him he was not ready for that. "He told me I

MANAGEMENT

Business philosophy: I believe in taking care of employees. They're our most important assets. They're the ones who are challenged to delight the guests at the end of the day. I remind our team all the time that I may sign the paychecks, but our guests pay all our salaries. I also believe that a clean, organized, well-groomed manager equals a clean, organized, well-groomed restaurant.

Are you in the franchising, real estate, or customer service business? Why? We're in all of them. We're franchisees and we're going to be franchisors too, so we're definitely in franchising. We're in customer service because we're in the restaurant business, and we've become involved in real estate through building, buying, and leasing.

What gets you out of bed in the morning? Every morning I'm starved for information. I want to know the numbers right away.

What's your passion in business? Developing, building things, floor plans, leases, deals—all this excites me more than anything. On the other hand, it's rewarding to see former kitchen employees who are now regional managers. A great example is our COO, who started as a prep cook at Buffalo Wild Wings' first location when I was GM.

Management method or style: I admit I used to be more of a micro-manager, but I've learned to back off and trust my people. The key is to surround yourself with bright people who think like you do. I don't like a lot of meetings—they're unproductive—but I'm in regular communication with my team.

Greatest challenge: My greatest challenge has been coming from a single-restaurant background to moving the company forward as a larger entity. We're growing at a good clip, and every day is a challenge. We've had a field day in real estate in the past three years. We've taken advantage of the situation and found some good stuff. But with no new development or malls or strip centers being built, it's only going to get harder.

How close are you to operations? I'm less involved with finance and accounting and more involved with operations and marketing because of my background.

Have you changed your marketing strategy in response to the economy? How? Not at all. When we started Bagger Dave's, we decided it would be about the food first and the atmosphere second—not about discounting. Our pricing isn't bad. It falls into a price point like Buffalo Wild Wings or Chipotle. Our food is as fresh as you can get it and our sauces are made in-house, so we don't have to get into discounting or coupons.

Personality: Passionate, intense.

How do others describe you? Intense.

How do you hire and fire? When we hire, everybody interviews with at least three people. We look for people with personality traits that are common in our company culture. We're working on a personality assessment test that will have candidates answer 60 questions before getting an interview. When it comes to firing, we're pretty quick. If you're here, we take care of you. If you're not cutting it and not fitting in, you're not here. We're not afraid to admit when we make a mistake, even if somebody's been here for only a couple of weeks.

How do you train and retain? We're dealing with young people, especially at the restaurant level, so we try to (as the saying goes) hire smart, train hard, and manage easy. It makes sense, and we're spending extra money to intensify our training program.

How do you deal with problem employees? We have a strict process: a verbal warning, a couple of write-ups, and you're gone.

We started this year with 19 Buffalo Wild Wings and we're ending the year with 22. We started the year with three Bagger Dave's and will end the year with six.

needed to walk before I could run, so I agreed, despite pressure from the board," says Ansley. A few years later, McClintock, impressed by the concept's performance, joined Bagger Dave's board. This past March he came on board as senior vice president of franchise sales and development. They hope to begin opening franchise units in 2012.

The busy husband and father of three sees no conflict between his roles as a Buffalo Wild Wings franchisee and Bagger Dave's franchisor. "A lot of franchisees have done this—the most famous is probably Dave Thomas of Wendy's," he says. "Thanks to having operational manuals and all the HR stuff on software—some of it our own—it's not that hard." MUF

BOTTOM LINE

Annual revenue: $45 million in 2010

2011 goals: $60 million in revenue. We started this year with 19 Buffalo Wild Wings and we're ending the year with 22. We started the year with three Bagger Dave's and will end the year with six. Next year, in addition to three more Buffalo Wild Wings, we'll be adding five Bagger Dave's on the corporate side as well as opening some franchise locations.

Growth meter: How do you measure your growth? Comparing nicely this year over last year's same-store sales.

Vision meter: Where do you want to be in 5 years? 10 years? In five years, we'd like to have 40 Bagger Dave's units and closer to 50 Buffalo Wild Wings. 10 years? I can't even look that far ahead.

How has the most recent economic cycle affected you, your employees, your customers? We weathered the storm nicely. When we went public in 2008, it wasn't a good time so we sold to family, friends, and employees as long-term investments. We've seen our customers suffer, but they've been loyal to us.

Are you experiencing economic growth or recovery in your market? Definitely in Michigan. Florida is still a little weak since it depends so heavily on tourism and construction.

What did you change or do differently in today's economy that you plan to continue? We remained focused on growth. Initially we panicked and did a wing promotion in Detroit that we regretted. We won't be doing that again. We went back to our base, focusing on our guests and reinvesting in our restaurants. We've put $1.3 million in refreshing and audio/video in our current restaurants.

How do you forecast for your business in this economy? We keep things very conservative, flat.

Where do you find capital for expansion? We have a line of credit with RBS, and we've self-funded—40 percent cash for Bagger Dave's and 30 percent for Buffalo. Eventually we'll go out for a larger secondary offering.

Is capital getting easier to access? Why/why not? For bigger foodservice operators like us it's easier because we're less risk-averse for the banks. But on the Bagger Dave's side, our new franchisees will have a harder time since it's an unproven concept.

Have you used private equity, local banks, national banks, other institutions? Why/why not? No institutions other than commercial banks.

What kind of exit strategy do you have in place? I still own 59 percent of the company, but as it gets bigger I'll need to diversify myself.

What are you doing to take care of your employees? We pay fairly well and we offer an aggressive bonus program. We pay 100 percent of management insurance premiums and offer tuition reimbursement, cell phones, and annual trips for our GMs. For our hourly employees who work 20 hours or more a week, we cover 50 percent of their health insurance. We try to be flexible with scheduling, give all our employees Target gift cards at the holidays, and have a reward program every month for the top three restaurants.

How are you handling rising employee costs (payroll, healthcare, etc.)? So far we've managed well with healthcare. Last year, our rates were flat; this year, they were up 3 percent. I'm a little worried about healthcare in the future, because nobody can seem to get their hands around what's going to happen. We've seen some commodity pressures on produce, but chicken wings have gone the opposite way so we've done all right. Bagger Dave's is harder to manage, because we're still too small to get great contracts. By the end of the year, we will be big enough to get better ones.

How do you reward/recognize top-performing employees? As I mentioned, we're aggressive on bonuses and we look at salaries annually. We're looking into offering the three top-performing GMs a leased car, a trip, or a bonus kicker.

BY JOHN CARROLL

Too Much Fun!

Navigating through the winds of change

Tom DiMarco knows his numbers—and they're getting bigger every year.

When he was recruited 27 years ago as controller for Salo Inc., a franchisee of Interim HealthCare, the company had only four locations. As Salo has grown, so has DiMarco's career. Seven years ago he was tapped to become the president of the organization, and today the fast-growing business has 45 Interim HealthCare locations in 5 states.

Salo, based in Columbus, Ohio, offers full- and part-time work to 8,300 employees, up from 6,600 people just a few years ago. The company is still growing steadily—along with a healthcare industry that continues to expand even as the economy languishes—and has become the largest provider of home healthcare Medicaid services in Ohio, providing everything from pediatric to geriatric and skilled nursing services.

In fact, says DiMarco, a bad economy has been a boon to Salo and other Interim franchisees. "There are a lot of skilled RNs and licensed practitioners who stayed at home, taking care of their kids," he says. "With the downturn, there was a huge influx of these professionals. They were brought back into the workforce, looking for work."

Interim HealthCare, a 40-year-old brand with 325 home healthcare franchise locations in the U.S., brings plenty of name recognition—and a crucial national contract to provide Medicare and Medicaid services to the elderly and families getting by on low incomes.

NAME: Tom DiMarco

TITLE: President

COMPANY: Salo, Inc.

NO. OF UNITS: 45 Interim HealthCare locations in 5 states

AGE: 60

FAMILY: Married for 36 years with 3 kids and 3 grandkids

YEARS IN CURRENT POSITION: 7

YEARS IN FRANCHISING: 27

Despite all the uncertainty about healthcare reform at a time financially strapped states are cutting back on hours for home healthcare providers (one of their healthcare professionals who may have needed six hours to provide a service may now be lucky to be approved for four), DiMarco has no plans to slow down.

"We've set a goal next year of $200 million in revenue," he says following a goal of $174 million for 2011. And the company, which billed for 5.5 million hours in 2010, has its sights set on 6 million hours in 2011.

Given the budget cuts he's seeing in the five states where he operates, those figures may be ambitious, says DiMarco. But he would rather set a goal and fall short than be too conservative and fail to expand as quickly as the organization is capable of doing. He also knows that the stronger Salo becomes, the better his chances are of navigating the turbulent changes ahead for the nation's home healthcare agencies.

"The upside is the strong will survive," he says. With some 13,000 home health agencies scattered across the country, government officials have made it clear that they want that number reduced to a more manageable level.

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PERSONAL

Key accomplishments: Being able to grow significantly. When I started 27 years ago we were a $10 million company with four locations. Because of the great people here we now have 45 locations providing 5.5 million hours of service with $165 million in revenue.

Biggest mistake: Operationally there were a couple of locations we opened and closed. But that happens in business. We have a small-business mentality and we're trying to grow a large corporate mentality.

Smartest mistake: There was a manager in the northeast region of Ohio who didn't look like she was going to make it. After discussions with her and the team in Columbus we kept her, and she turned out to be a star.

How do you spend a typical day? I watch the items on my to-do list grow. You have items you want to accomplish and as you get into the day a lot involves impromptu meetings and conversations, and it's fun.

Work week: I like to do all the stuff I mentioned and allow an hour to 90 minutes each day to regroup and respond to emails, do business reviews, and put things together. I'll spend half a day on Saturday doing the same thing.

Favorite fun activities: I pretend to golf.

Exercise/workout: I like to walk as a stress relief. It's not exercise.

Favorite tech toys: I'm technologically incompetent. I have a Droid, I know the basics.

What are you reading? Just news publications, magazines, but no books.

Do you have a favorite quote or advice you give? The quote I use many times is that we push people to reach their level of incompetence, because you don't know where it is until you get there. I started as a controller, and here's where I wound up.

Best advice you ever got: The best advice is hold your goals and objectives high but don't be afraid to fall short.

Formative influences/events: When I was first hired, Harry Salo was president. He talked at a much higher plane than I could comprehend. Now I understand what he was talking about.

How do you balance life and work? Travel. We have a place on Lake Las Vegas. It's a great balancer, mentally and emotionally.

MANAGEMENT

Business philosophy: Just continue to move forward. Integrity is the company's number-one asset.

Would you say you are in the franchising, real estate, or customer service business? Why? We're in the customer service business. Our success is based on how we treat customers.

What gets you out of bed in the morning? It's fun. You have to be happy at work, because you're spending most of your waking hours doing it. I love the people that work with us.

What's your passion in business? To make sure that our people are treated fairly, that we provide good service. Financials don't drive the business, the business drives the financials.

Management method or style: We have a management style based on a unit president. Each department head is president. They have a right and ability to make decisions that benefit the company. That depends on trusting people. In my position I oversee everything but I'm not hands-on. Trust is built over time.

Greatest challenge: Right now in our business it's really what the ultimate outcome of healthcare reform is going to be. It will have a dramatic impact on our business and our ability to continue the services we're providing. The service and reimbursement side we can handle. But our business is more or less run on a per diem basis. We have lots of full-time workers, but others don't get benefits. Under "pay or play," you have to pay $2,000 per full-time equivalent if they don't get insurance coverage. In the situation we're in, that could knock 40 percent off the financial value of the company.

How close are you to operations? We have an open-door policy. I receive phone calls on an as-needed basis. We have a CFO and COO who handle the day-to-day operations.

Personality: Much more mellow than I was before being in this position. I still get fired up about good and bad things, but that happens.

How do others describe you? Probably the same way. But I probably don't get fired up as much as they think I do.

How do you hire and fire? We have a process. I'm not directly involved unless it involves a member of the management team. We do interviews by committee. We check references, do background checks. And it works. We have a lot of longevity in our company. Our COO will be celebrating his 40th year in January.

How do you train and retain? Probably not as well as we should. Training is often on-the-job. We do have continuing education classes we send people to. A lot of our business is assignment-based, so there is a lot of turnover, more than we would like.

How do you deal with problem employees? There are different levels for handling them. They can be treated at the local level, with involvement from HR. Complaints are investigated and we try to sit down and resolve any complaints. There are instances where if they violate a policy, depending on the severity of the issue, they can receive an oral and written reprimand, up to termination.

At the same time, anyone familiar with the country's demographics can see a tidal wave on the horizon of people to care for on the Medicare side of the business, while healthcare reform has promised to boost the numbers of people in Medicaid with millions of new beneficiaries.

There's another side to the healthcare reform initiative, one that worries DiMarco. In a large service company like his, he has quite a few people on the payroll who don't receive insurance coverage. Under the reform act, companies will either have to pay for those benefits, or face a stiff fee from the government. That can hit the bottom line in a big way.

People ask me about retirement plans and I say, retire to what? This is what I like to do.

Still, DiMarco says that his seven years at the helm of the company have been a lot of fun—and he plans to keep on doing it as long as it remains that way. In the meantime, he has a vacation home at Lake Las Vegas and a team of managers he's confident can handle the challenges and opportunities ahead. MUF

BOTTOM LINE

Annual revenue: $165 million in 2010

2011 goals: $174 million, with 6 million hours of service.

Growth meter: How do you measure your growth? We do it the financial way, but it's also very subjective.

Vision meter: Where do you want to be in 5 years? 10 years? I ask myself that same question. People ask me about retirement plans and I say, retire to what? This is what I like to do. I have the flexibility to be here and elsewhere and there may come a time when it doesn't fit anymore. But it would have to be retirement *to* something, not just retirement.

How has the most recent economic cycle affected you, your employees, your customers? From a hiring standpoint it has benefited us. With reimbursement cuts it's forcing us to look deeper, whether we can do things better and more cost-efficiently. We're able to absorb cuts, and growth also helps offset cutbacks.

Are you experiencing economic growth/recovery in your market? On an overall basis we're still growing. This year we're at 8.5 percent, but at the end of this year we may be down to 7 percent.

What did you change or do differently in today's economy that you plan to continue? We've looked at management and systems. We're changing the software we use to do our business, which will make us more efficient in scheduling and the financial/billing end. That's an investment of $3 million.

How do you forecast for your business in this economy? We go through an annual budget process. We have main leaders in 45 offices where they review markets and market plans. They prepare budgets and present to us during a two-and-a-half week period. There's a strategic planning committee meeting at the end of September in Lake Las Vegas where we meet annually with key people to figure out our direction, and where we need to change direction.

Where do you find capital for expansion? We have a great banking relationship in Columbus, where we're based. And we generate cash flow to finance expansion. We have term debt, $15 million, that's financed. It's a 5-year note and through cash flow we can pay it off in three years.

Is capital getting easier to access? Why/why not? For our organization, it's easier because of our performance. We put our banking relationships out for bid last winter. We had four banks that we invited to bid and all four wanted the bid.

Have you used private equity, local banks, national banks, other institutions? Local banks.

What kind of exit strategy do you have in place? In 2007, we opened up ownership in the company. We now have 17 total shareholders in the company, from generational shareholders in their 60s to their 40s. And they are key people at the corporate and operations level. Depending on my exit strategy, we can either sell the company, where all shareholders benefit, or the company can buy me out.

What kinds of things are you doing to take care of your employees? Our compensation package is all based on incentives, from the receptionist on up. On a weekly basis if the business goes up, pay goes up. If it goes down, pay goes down. They understand the risk/reward concept. For some making $600 a week, they'll have maybe $50 at risk. For vice presidents, their pay is more incentive-based than baseline.

How are you handling rising employee costs (payroll, healthcare, etc.)? Other than absorbing them, we also increased the size and talent in the HR department. With all the rules and regulations out there, we need to be on top of all of them. And they are complicated.

How do you reward/recognize top-performing employees? The national franchisor has an annual meeting in the spring. We took a contingent of 80 people last year to the Grand Floridian at Disney. We also do our own annual rewards/recognition dinner before the national meeting. We have a whole series of awards from peak performance award for office operations, with top- and bottom-line goals, to our Founder's Award, which has 14 different criteria. It's the highest award and is very well-respected.

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BY DEBBIE SELINSKY

Growing Up Franchising

Life is great—pass it along!

In 1969, when high school senior Rodger Head took a job at a Burger King, he had no idea he was entering the business he would stick with for his entire career. One big reason was veteran restaurateur and franchisee Billy Trotter, who took the young man under his wing. "He had 19 Burger Kings then, and I stayed with him as he grew his company," says Head. "And I grew up in that company."

In 1985, when Trotter sold his company and started Rally's Hamburgers, Head, whose responsibilities also had grown, went with his mentor. They

NAME: Rodger Head

TITLE: President and CEO

COMPANY: bd's Mongolian Grill

NO. OF UNITS: Franchisor: 35 bd's Mongolian Grill in 13 states
Franchisee: 12 Popeyes Louisiana Kitchen

AGE: 59

FAMILY: Wife Denise, 6 children, and a stepson

YEARS IN FRANCHISING: 41

YEARS IN CURRENT POSITION: I bought bd's Mongolian Grill and formed this partnership in 2007. I've been a Popeyes franchisee for more than two years in the Tidewater, Va., area.

I've made every mistake in the world. But I don't look at life that way. From a professional standpoint, mistakes are lessons.

also became Papa John's franchisees and remained together until 1995, when Trotter retired.

In 2000, Head became president of Shoney's. During his six years, he brought the organization's sales figures back into the black for the first time in more than a decade.

While searching for his next opportunity, the hard-working husband and father met with friend and current partner

Clyde Culp, who had formed a private equity group. In 2007, the group bought bd's Mongolian Grill and revamped the brand into one known for its fresh ingredients (used to create your own stir-fry) and hip, Gen X/Y atmosphere. With that move, the longtime franchisee also became a franchisor.

"That seemed a natural evolution of my career and my relationship with Billy," says the CEO of the Burnsville,

PERSONAL

Key accomplishments: First of all, I think it's amazing I've lasted this long in this industry. I'm proud that I was part of the early days of Rally's Hamburgers (now Checkers/Rally's Drive-In Restaurants) with my great friend and mentor Billy Trotter. Another key accomplishment was being president of Shoney's for 6 years, during which we had positive sales in that company for the first time in 14 years. But I'm most proud of all my seven kids. Denise and I are in business with two of my sons, Bryan and Chad. Together, we own two restaurants in Nashville. It's really cool to work with your kids.

Biggest mistake: I've made every mistake in the world. But I don't look at life that way. From a professional standpoint, mistakes are lessons.

Smartest mistake: Allowing Billy Trotter to talk me into moving to New Orleans. I thought it was a big mistake, but from that move came the founding of Rally's Hamburgers, which was one of my greatest life and business experiences.

How do you spend a typical day? I'm an early riser, usually up by 5 or 5:30 a.m. I immediately power up some type of device and go through emails, read our guest comments through our website and respond to those appropriately through regional or franchise directors. I travel four days a week, since I live in Nashville and have my office in Minnesota and franchisees in many states. A normal day for me is visiting with and mentoring operators, franchisees, and staff.

Work week: The restaurant business is a seven-day business, but I try to work smarter now than I did when I was young and thought I had to conquer the world every day. I work five or six days a week, and on weekends, I like to spend time at my son's restaurants. That's not work—that's fun.

Favorite fun activities: As I've gotten older and found someone I love to spend time with, my favorite fun activity is hanging out with my wife. We spend time in our RV and we love to kayak, golf, and hike. We also like to travel.

Exercise/workout: I love to walk and usually walk four or five days a week. We live on a lake on a nice piece of land, and I enjoy working outside in the garden.

Favorite tech toys: My iPhone!

What are you reading? I read a daily devotional every morning. And I love to read adventure and murder mysteries, especially by James Patterson. I also read the *Wall Street Journal* and *USA Today* on my iPad.

Do you have a favorite quote/advice? I have so many that my team would say you don't want to get me started.

Best advice you ever got: My mother, who is responsible for anything good in me, said, "Stay true to your spiritual beliefs, whatever they are, and stay true to yourself. If you do that, everything else will fall into place."

Formative influences/events: I have been so fortunate with mentors like Billy Trotter throughout my career. But I think growing up very poor and watching my father work so hard made me hungry to learn and to succeed.

How do you balance life and work? This is always a challenge, but I'm very disciplined about spending time with the people who mean the most to me. After years of experience, I recognize the signs now when I'm overindulging in work, and I'll take vacation time and spend it with my family.

Minn.-based franchise. "He was a huge franchisee who became a franchisor after starting Rally's Hamburgers. I understood the franchisee side of the business and thought that would make me a better franchisor."

Today there are 35 bd's Mongolian Grills in 13 states, with more on the way. Head also works with his wife, Denise, vice president of marketing for bd's and a 25-year industry veteran.

Insisting he's an operator at heart, Head also continues as a 12-unit franchisee with Popeyes, which he describes

MANAGEMENT

Business philosophy: My business and personal philosophies are absolutely aligned. And it's simple: I look at every business relationship as equally important as a personal relationship. I surround myself with like-minded people and I nurture those relationships, starting with establishing the importance of respect in any relationship.

Are you in the franchising, real estate, or customer service business? Why? I'm in all of them. I'm on both sides of the franchising spectrum—a franchisee for Popeyes and a franchisor for bd's. Personally, I own real estate and deal in real estate in business. And we're all in the customer service business, whether we want to be or not. In our company, we don't use the word "customer"; we use the word "guest."

What gets you out of bed in the morning? I still love life. I view life as a three-legged stool representing my spiritual, personal, and business lives. Never in my life, until about five years ago, have all my stars aligned and given me three even and equally sturdy stool legs. Life is great.

What's your passion in business? Developing young people. I don't have many business aspirations left. I've run big companies, public companies, small companies, and I'm still in business for myself. So I want to teach great restaurant leadership.

Management method or style: I'm fair, but not tolerant. I think of myself as a servant-leader. I clearly articulate our goals and I demand performance. As long as someone is performing—putting their best foot forward and expending 110 percent of their knowledge and skills to achieve our goals—they're doing the best they can. If they don't have the skill sets, that becomes my problem.

Greatest challenge: I have so much passion that sometimes I may put too much pressure too soon on young people. I have to allow people the opportunity to grow and remember to ask myself, *Am I the leader I want to be?*

How close are you to operations? I grew up as an operator and am that guy who walks into our restaurants and gravitates to the kitchen to talk to our teammates there. That's where I'm the happiest. I've been a CEO a long time, but I am an operator at heart… forever.

Have you changed your marketing strategy in response to the economy? How? Popeyes is one of the coolest brands going right now. Cheryl Bachelder is a wonderful CEO and is charting that course. We're really happy with their marketing strategy. As far as bd's marketing strategy, we changed and enhanced that when we bought the company four years ago. We clearly identified our unique selling propositions and we're staying true to the brand and to who we are. We've had some big opportunities we've been able to capitalize on.

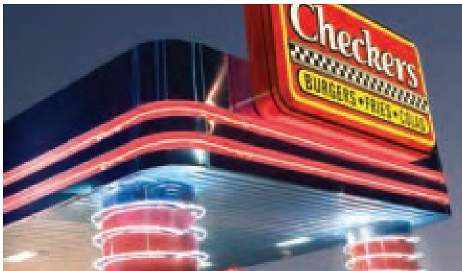
Personality: Fun, intense.

How do others describe you? Fun, very intense.

How do you hire and fire? I'm big on internal promotions, so we do a lot of that. When I hire, I spend a lot of time getting to know candidates personally. It's important to know if they align themselves with my beliefs, how I approach life and business. If they do, that's 75 percent of the battle and the chemistry works. If people are not like-minded, it's never going to work. I've always viewed firing as something to take personal responsibility for. When you have to release someone, it's not necessarily their fault. Sometimes it means the organization missed something along the way or didn't train or counsel them properly.

How do you train and retain? I am huge on both initial and ongoing training, which manifests itself into retention. It goes back to hiring the right people, training them to do a specific function, and learning how to develop them. We have a program at bd's called Career Quest, which tells team members specific things they have to do to move up to the next level. I think it's the best program I've ever seen. We also do advanced management training, bringing in experts twice a year to teach things like Finance 101 or Marketing 101. We even did Beer Pouring 101 with a beer vendor and taught the team how to make more money on draft beer.

How do you deal with problem employees? At my level, I don't get into that too much, but if I had a problem executive, I would stay committed to their success right up to the end.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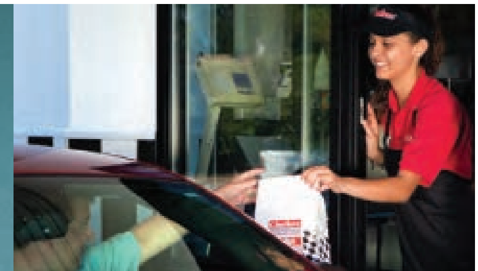


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as "one of the coolest brands out there today."

Having accomplished more than he'd ever imagined, and having learned about balance in life, Head, who now lives in Nashville, says he is focusing a lot of his time now on giving back. "I was always so lucky with my mentors—people like Billy Trotter and Clyde Culp and Jim Patterson. I'd like to be remembered as someone who was a good mentor and teacher, who taught young people how to be good leaders." MUF

BOTTOM LINE

Annual revenue: I'll say this: the AUV at bd's in 2010 was $2.2 million.

2011 goals: At bd's, we want to have a 1 percent increase in sales and traffic, which is a pretty lofty goal these days. We're increasing our alcohol sales and sales of appetizers, which we've never focused on before. We've come a long way in both regards.

Growth meter: How do you measure your growth? In actual comparison, same-store sales.

Vision meter: Where do you want to be in 5 years? 10 years? I hope to be retired in five years, hanging out at my son's new restaurant, drinking margaritas and eating tacos. For bd's, it's hard in this economic environment to predict or set goals beyond three years. In five years I hope we'll have 100 restaurants or more.

How has the most recent economic cycle affected you, your employees, your customers? As a brand, it's created huge obstacles because of the unavailability of money to grow. Despite the fact that lenders get up at conferences and say they're lending, if you're not borrowing big bucks—$20 million or more—there's little or no lending going on. The consumer has experienced shrinking disposable income, which makes it hard to grow sales. How we perform, execute, and wow our guests becomes even more important. As to our employees and teammates, we haven't laid off anybody.

Are you experiencing economic growth/recovery in your market? Yes. Over the last five years, the population of Detroit, where the bd's brand was started, has shrunk by more than 300,000, and unemployment has been 26 percent. And of course the auto industry took a whacking. Yet our Detroit restaurants continue to outperform all others in the country. There's great loyalty from our guests to this brand. Popeyes also is doing extremely well. We bought our stores two years ago; we were plus-12 in 2010 and so far this year are plus-5.

What did you change or do differently in this economy that you plan to continue? We're not doing anything different—we're just more conscious of the value equation.

How do you forecast for your business in this economy? Ouija boards, dartboards (laughing)? It's tough but we're very disciplined in our forecasting and we measure everything we do, so our database is pretty deep. We also pray a lot.

Where do you find capital for expansion? We found that the SBA is still lending, but with new requirements. We're looking for high-profile franchisee candidates, those who already have a business, infrastructure, and local bank relationships. These are the people who can pick up the phone and get money to develop.

Is capital getting easier to access? Why/why not? No, and because of the events of the last 60 days, it's become even tougher.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We're owned by a private equity company and we've used private banks.

What kind of exit strategy do you have in place? We're just building as many restaurants as we can, and it will take five years to do that. If you build a strong company of well-run restaurants and focus on developing your people, the exit will take care of itself either through merger, acquisition, or IPO.

What are you doing to take care of your employees? The biggest thing we do is treat them with respect and create a healthy, fun work environment.

How are you handling rising employee costs (payroll, healthcare, etc.)? We're committed to our people and want them to stay. Our managers have a group healthcare plan that we still offer at a 60/40 split (we pay 60 percent).

How do you reward/recognize top-performing employees? I don't believe everything has to be monetary, but we do have good incentive compensation and bonus programs at all levels. One of the coolest this year was a contest running through summer promotion. Four servers and bartenders won all-expense paid trips to the annual conference in New Orleans, where they'll rub elbows with managers, regional directors, and senior team members.


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BY JOHN CARROLL

Doctor of Franchisology

Choosing restaurants over medicine—and loving it!

When Sunita Sagar was a teenager working as a part-time cashier at a Jack in the Box in California, she dreamed of the day she would become a doctor. The dream stayed alive as she worked her way through the University of California, San Francisco, simultaneously rising through the fast food world to assistant manager and part-time manager.

After earning a B.A. in science and working in hospitals for a few years, she realized that the last thing she wanted to be was a doctor. About then, it became apparent that her future already had been part of her life since she'd taken that first job at Jack in the Box.

"My husband and I wanted to go back into the restaurant business," says Sagar. Only this time, she wanted in as an owner-operator, where she could put everything she had learned firsthand to use growing a multi-unit franchise organization. Her first shot arrived in 2007, when she was given the chance to buy an underperforming Denny's in Campbell, Calif.

"That restaurant was going downhill," she recalls, "and we turned that restaurant upside down. We turned the people around, we turned the operation around, and we turned the sales around. We started staffing the restaurant with the right people, and then we had an opportunity to purchase more. So we bought three stores in Fresno in 2008."

Once again, Sagar stepped in on each, where she could see for herself what needed to change. "We took over those three stores and managed those stores for a few weeks," she says. "We made some staffing changes, found people right for the business, and took a few months to bring those stores around.

NAME: Sunita Sagar

TITLE: COO

COMPANY: Sagar Family Corp., Devika Restaurants Inc., Sagar Diner and Sahil Restaurants Inc.

NO. OF UNITS: 8 Denny's, 5 Baja Fresh, 5 Jack in the Box

AGE: 43

FAMILY: Daughter, Devika, 16, and a son Sahil, 12—and my husband Dev

YEARS IN CURRENT POSITION: 4

YEARS IN FRANCHISING: 4

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Number 1 rule: If you cannot take care of your customer someone else will.

PERSONAL

Key accomplishments: Leading and operating America's favorite brands.

Biggest mistake: Trusting people too quickly.

Smartest mistake: We had an acquisition option at one point to acquire some stores out of state. With the way the economy turned, now we are glad that we did not do it.

How do you spend a typical day? It varies. My schedule is very flexible in helping and improving management and operations from the home office by tracking daily numbers and constant coaching through conference calls and phone calls. We are there, wherever needed.

Work week: We work 24/7. My phone never gets turned off. Whatever the time or requirements, I always answer my phone. Always.

Favorite fun activities: I like to spend time with my kids, talking to them.

Exercise/workout: Sometimes, I try to go to the gym, but that's often out of the question, taking time. I like to walk in the evening.

Favorite tech toys: BlackBerry.

What are you reading? I don't read novels. I do read a lot of articles, including *Multi-Unit Franchisee* magazine. And all the management books. Anything I can learn about management.

Do you have a favorite quote or advice you give? One can achieve anything one wants to achieve with commitment and hard work. Don't give up fast. "Satisfaction lies in the effort, not in the attainment. Full effort is full victory." (Mahatma Gandhi)

Best advice you ever got: Work for yourself.

Formative influences/events: I would give a lot of credit to my husband and kids. I have great support from my family, and because of them I am able to manage to do all these things. My husband always encourages me to do what I want to do.

How do you balance life and work? My work is very important and near and dear to me. Work is my passion, but my family comes first. I am involved with their school activities, helping them with their homework, and being part of their extracurricular activities. I love being part of their growth and enjoy that very much. I always answer calls from my kids.

MANAGEMENT

Business philosophy: To be honest. To deliver what I promise and continue to grow guest services, employee growth, and the success of the people working with us.

Would you say you are in the franchising, real estate, or customer service business? Why? We say customer service. They are the ones who are the core of the business. Number 1 rule: If you cannot take care of your customer someone else will.

What gets you out of bed in the morning? To see what my opportunities are to run our business better. What we did yesterday, are we doing it better today?

What's your passion in business? To run the operation as well as possible and take care of guests and customers.

Management method or style: Fair and firm, with open communication; and lead by example.

Greatest challenge: People, staffing, finding the right people who have the passion for customer service.

How close are you to operations? Very close, as close as my husband.

How do others describe you? People say I am a Type A person, always on the go.

How do you hire and fire? Usually we don't get into hiring and firing. The general manager and area manager do the restaurant-level hiring and terminations and follow company guidelines. Of course for hiring we go through the whole process: background checks, work history, why they left.

How do you train and retain? We follow the corporate training program they provide to the franchisees. We fully train people and make sure they go through [the franchisor's] training at the same time. When I go to the store I have my own way of analyzing how the manager is working. We clearly lay out our expectations when we're hiring so there's no shock. We have very low turnover in management. Retaining: We make sure we put everything up front and be honest. Everybody has a goal to achieve, bonuses, and annual reviews.

How do you deal with problem employees? Most problem employees are dealt with below my level. They have to follow the procedures, disclosure policies, and documentation. Documentation is the key to my organization.


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That was our first experience running multiple locations."

In 2009, they began to diversify, buying their first Baja Fresh location. Cross-training managers so they could help each other turned out to be a key to boosting sales. They bought four more Baja Fresh stores that year, and built a new Denny's from the ground up.

"We were looking for more opportunities with Denny's," she says. As the business grew swiftly, she landed a deal to be the sole developer for Denny's in Fresno.

Sagar also has grown to appreciate the promotional end of the business—and she's good at it. In 2009, the local newspaper in Sanger, Calif., helped provide a splash when Denny's gave the first 100 people to come to her new Denny's the chance to have a free "Grand Slam" breakfast every morning for a year.

Sagar has become adept at handling an organization that has fast growth coded right into its DNA.

In just four short years, the couple has built an organization with 18 locations and three different concepts, including five Jack in the Box units, where she started out. It's a fast-paced operation that requires her to keep up a frenetic pace, but she seems to relish the unending stream of calls from her expanding organization.

Certainly there were mistakes along the way. Fast growth requires an ever-lengthening list of employees, and not all of them worked out as hoped. Maybe she trusted a few people she shouldn't have, or gave them more responsibility than they could handle. But employment mistakes can be fixed, and Sagar has become adept at handling an organization that has fast growth coded right into its DNA.

Sunita Sagar may not have become a doctor, but she's living the dream. And one day she'd like to see her children explore the entrepreneurial side of franchising as they decide which dreams they'll pursue. MUF

BOTTOM LINE

Annual revenue: $15 million to $20 million

2011 goals: To increase the guest count in our restaurants, profits of existing restaurants, and add more restaurants.

Growth meter: How do you measure your growth? Positive cash flow.

Vision meter: Where do you want to be in 5 years? 10 years? We would like to add 5 to 10 restaurants and increase revenue.

How has the most recent economic cycle affected you, your employees, your customers? The double-digit unemployment rate has definitely affected the cycle. Customers want more for their buck. The pie is so big and people expect more than what they had in the past. Of course, people are looking for jobs, so it's easier to find employees now. People tend to perform better.

Are you experiencing economic growth/recovery in your market? We have seen growth. Compared with last year we've seen an increase in the guest count and sales, and I hope it continues.

What did you change or do differently in today's economy that you plan to continue? There's an ongoing effort to take care of customer service; above all else, listening to the guests and getting feedback. This has always been my business philosophy: to listen to the guest and respond in 24 hours about any concerns. Also, we have discounted more than before to get the guests in. And everyone has adopted the value meal. But the top line is getting better and that's a good thing. We also have a greater variety of foods to attract guests.

How do you forecast for your business in this economy? Forecasting is difficult, but you have to forecast to know what your goals are.

Where do you find capital for expansion? Savings, friends and family, and local community banks.

Is capital getting easier to access? Why/why not? It depends on the project you're presenting. The bank is looking at your portfolio with the project, backtracking on performance. We have not had difficulty getting capital.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Local community banks. It is easier to work with them.

What kind of exit strategy do you have in place? I'm too young to exit yet. But as my kids grow up, they've started to learn the business. So maybe that's my strategy.

What kinds of things are you doing to take care of your employees? To give growth opportunities to people who are performing.

How are you handling rising employee costs (payroll, healthcare, etc.)? We are finding that the best people working for us are working in the best interest of the company, so we're targeting fewer turnovers. The cost of retraining goes down. We're looking for the company that can give the best solution for healthcare.

How do you reward/recognize top-performing employees? Top performers can get a bonus. Depending on what level a manager is, they can get an additional store or move into a different position. Because we have three concepts, there are more opportunities to do better with more money.

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BY DEBBIE SELINSKY

Married with Donuts

Attorney-turned-franchisee builds on family tradition

Robert Branca, Jr., and his family of Dunkin' Donuts multi-unit franchisees offer the kind of advertisement for franchise success that money can't buy.

Case in point: Branca and his close family own 60 Dunkin' Donuts in New England. His extended family, including in-laws, their siblings, spouses, children, and cousins, own more than 700 Dunkin' Donuts in all and dominate the brand in New York and New England.

"We're all multi-unit franchisees," says Branca, who is married to the former Lisa Batista and was the family lawyer for years before he joined the family business. He learned about franchising and Dunkin' Donuts from the best: his father-in-law John Batista, a Dunkin' pioneer who came to the U.S. from the Azores and today owns the first-ever franchised Dunkin' Donuts store.

"He came from Portugal with nothing and worked for his brother in Rhode Island before he went to Worcester in Central Massachusetts to open his own store. He's been in the business for about 40 years," says Branca, who holds a biology degree from Boston College and a law degree from the University of Michigan Law School.

As a young attorney, Branca specialized in commercial transactions and represented a lot of banks. "As bank counsel, I got involved in learning about the borrower's business. I was fascinated and spent a lot of my own time learning about how they got where they are," he recalls. "I learned a lot from clients about a lot of different businesses."

One of those businesses was franchising, and Branca soon represented many of the successful franchisees in

NAME: Robert Branca, Jr.

TITLE: President, General Counsel, Director of Development

COMPANY: JLC Donuts, Inc.; Branded Realty Co., LLC; Batista Management Co.

NO. OF UNITS: 60 Dunkin' Donuts and 5 Baskin-Robbins with direct family partners; with extended family, 700 units

AGE: 48

FAMILY: Wife Lisa, three daughters

YEARS IN FRANCHISING: 25

YEARS IN CURRENT POSITION: 10

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Seth Lucas, Area Development Representative

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the Batista family. "They're strong business people who helped build a strong Dunkin' franchisee base," he says.

When Branca, whose father taught him the value of both entrepreneurship and being an employee, decided to join the Batista family operation, they began to grow more aggressively and also became a real estate development company. "I knew going in that I had my father-in-law, my wife, and her sisters as resources, and I've learned so much from the Dunkin' franchisees who were my former clients," he says.

Branca attributes the success of the family to the way in which they've leaned on each other. "There are huge resources among these franchisees. We have our own independent franchisee association with strong educational components and other assistance. Profitability for us with this concept has been good. If you do it properly, it works," he says.

Branca, who jokes he is Italian by birth and "intensity," went into business with the largely Portuguese family with his eyes wide open. "When people ask me about working with family, I say, 'Know what to expect before you do it.' I'd also remind that regardless of the business, you're going to be with these people forever. Keeping that in perspective is most important so you don't let business disagreements overwhelm the bigger picture."

Since Dunkin' Donuts is largely built out in New England, except for airports and college kiosks, Branca is looking at opportunities to expand west of the Mississippi. He's also developing an original concept "based on European tradition" that he'll grow through franchising. "With our family resources in-house, we pretty much have everybody we need to do that now except a CPA," he says, as he departs for the annual family vacation in the Azores. "There'll probably be 200 DD shops represented on the flight over." MUF

PERSONAL

Key accomplishments: Father, husband, business owner.

Biggest mistake: Not leaving a full-time legal practice sooner and following my father-in-law and his family members into Dunkin' Donuts franchising.

Smartest mistake: Deciding to lead three Political Action Committees. Both humbling and empowering at the same time; exhausting at all times.

How do you spend a typical day? It ranges from working in a restaurant to negotiating a property acquisition or new financing, working on various franchisor national committees for new products, and negotiating new franchise agreement components. I also meet weekly with family member partners/managers, since I can't do any of this without them. Other typical activities include training new employees, designing and implementing local marketing plans, managing problem employee situations, and lobbying on state and federal legislation and regulation.

Work week: 24/7

Favorite fun activities: Playing in the pool with the kids, skiing, and snowboarding.

Exercise/workout: I'm currently doing the "Insanity" DVD series with my wife. It's brutal, but effective.

Favorite tech toys: The iPad 2 that I won at the Multi-Unit Franchising Conference held last April at the Venetian.

What are you reading? *Imperium* by Robert Harris.

Do you have a favorite quote/advice? My favorite related to current events: To wrap your head around our federal expenditure numbers, realize this: a million seconds takes 12 days to elapse; a trillion seconds takes 31,000 years. (Lobbyist Rick Berman, aka "Dr. Evil" of K Street)

My favorite general quote/advice: If you love what you do, you'll never work a day in your life.

Best advice you ever got: Become a Dunkin' Donuts franchisee.

Formative influences/events: I was lucky to have my former client base, multi-unit Dunkin' Donuts franchisees, who showed me exactly how to succeed as I worked closely with them in the DD growth spurt of the 1990s and 2000s, especially my father-in-law, John Batista, who owns the first-ever franchised Dunkin' Donuts. My father, Robert, now retired, was an entrepreneur and taught me how to recognize and seize opportunities.

How do you balance life and work? The demands of having children pretty much forces its equilibrium on a daily basis. But overall, I love what I do, so it is rare that I feel I am out of balance. The only problem I feel acutely is that there aren't enough hours in the day to do all that I love to do.

MANAGEMENT

Business philosophy: My philosophy, dictated by my father-in-law, a DD franchisee pioneer and leader in our community: Every person in the enterprise must know the smallest detail of operations duties in the restaurant, regardless of position. There really is no better way to know how you are performing.

Are you in the franchising, real estate, or customer service business? Why? All of the above. To succeed, you need strong competencies in each. Getting even one of these wrong will endanger your whole enterprise.

What gets you out of bed in the morning? New challenges and, of course, seeing my kids' faces.

What's your passion in business? Creating new opportunities with people that you genuinely like to be around and learn from, and learning new things or discovering that knowledge gained elsewhere provides a perspective or solution to a new problem.

Management method or style: This is difficult to answer. I'm adaptive depending on the people involved in the project or the challenges faced by the effort.

Greatest challenge: Maintaining the current constructive relationship with the franchisor.

How close are you to operations? Very! I was behind a counter today after a closing.

Have you changed your marketing strategy in response to the economy? How? We do even more local marketing than ever before. We are very involved with local aid and veterans' assistance groups. Our area was recently struck by severe tornadoes, which was very unusual for here. We were compelled to act to raise relief funds and to use our media resources to highlight the need for additional help from the community.

Personality: Intense, Italian, and everything that implies.

How do others describe you? I just hope that it isn't as a "typical lawyer."

How do you hire and fire? Existing employee referrals are some of the best hiring sources. Firing is generally direct and after careful review of the circumstances and gathering of facts and opinions.

How do you train and retain? We involve every crew member in the training of new team members in existing units. And we do a lot of role-

BOTTOM LINE

Annual revenue: Prefer not to answer.

2011 goals: To develop and build our new concept, using (what else!) franchising to expand it. To open more new DD units in our Midwest expansion markets and to introduce nontraditional DD units in these markets.

Growth meter: How do you measure your growth? EBITDA, of course; customer counts, guest satisfaction surveys, and the personal satisfaction of our family members who run the enterprise. It never is just about the increased unit numbers.

Vision meter: Where do you want to be in 5 years? 10 years? Fully developed in our expansion markets and entering new markets. Developing new units of our own proprietary restaurant concept nationwide.

How has the most recent economic cycle affected you, your employees, your customers? We have invested in newly available systems that more closely and specifically manage costs to make us more nimble in response to rapidly changing environments. We have been through other downturns, but we didn't have the same software tools then that we do now. These new tools enable us to react more quickly than ever before. Gas prices seem to be the biggest impact factor for our customers.

Are you experiencing economic growth/recovery in your market? We have been generally unaffected by the disruption in terms of sales, but increasing commodities costs have hurt our margins. Our absorbing the costs has largely been rewarded by our loyal guests with continued patronage and sales growth. We clearly communicate that we are part of the community and experience the same effects our guests do. We believe that this has resonated in the communities in which we do business.

What did you change or do differently in today's economy that you plan to continue? We worked with our franchisor to implement new tools—some theirs, some our own—to more nimbly react to the economic environment and to the new metrics on guest perceptions that we never had available before.

How do you forecast for your business in this economy? We rely on our experience. My father-in-law has been in business for 40 years and his knowledge is helpful. We also have data on sales, weather patterns, seasonality, and software that helps us forecast how much to produce.

Where do you find capital for expansion? We have nurtured lending relationships over the years. We also partnered with our banker, who left the bank to expand to Ohio with us. He can analyze the lending environment and shape focused, cost-saving credit proposals in ways that we could never achieve before.

Is capital getting easier to access? Why/why not? Yes. The difficulties we encountered with excessive paperwork in 2009 have eased for the bank's more reliable customers.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We've used regional and national banks because of their predictability and consistency with requirements.

playing in training new crews in new shops. Our most senior people—and that includes me—are routinely involved in training. Our group believes that it is essential to lead by example and to demonstrate that everyone at every level must be willing to perform each duty proficiently and to be observed doing it.

How do you deal with problem employees? Coaching, along with careful documentation, in the event that they don't respond to coaching. But most importantly, asking about the real-life reasons behind performance issues and what we might be able to do to help them get past the issue. Most people want to perform at a high level, especially if they know that you believe they want to do it. The folks who respond to this approach can grow to be your most valuable team members.

What kind of exit strategy do you have in place? We generally require that we control our real estate and have tried to diversify our investments to businesses outside of our franchise enterprises. We're also looking at more growth.

What are you doing to take care of your employees? We pay 65 percent of health insurance premiums and paid vacation time. We also have offered assistance with personal matters on a level generally unavailable to our employees.

How are you handling rising employee costs (payroll, healthcare, etc.)? With more detailed analysis and management. We have also formed PACs on state and federal levels and banded together with other franchise systems to lobby government. We go to them armed with the details of the increased costs and impact on job creation of each new measure with which we are forced to wrestle.

How do you reward/recognize top-performing employees? Bonuses, promotion preference.

BY JOHN CARROLL

Father Knows Best

Taking the time to grow a thriving family and business

On the cusp of turning 30, Bryan Selden was looking to grow his business.

"Twenty-five years ago I was in the convenience store business," says the Texan. "And back then, if you wanted to look for a business, you looked in the want ads. I saw a blind ad for specialty retail, so I called."

The ad was for a Great American Cookies franchise. In 1987 he bought one location and built a second. Three more followed in Dallas.

When Selden first got into franchising, he rolled up his sleeves and learned the business in the trenches. He went at it alone, opening and closing his first location and generally trying to shoulder as much of the daily work as he could. Adding more locations meant hiring more people, but the work remained all-consuming.

In 1993 he came to a fork in the road of life. With a new baby joining his young son and daughter, Selden felt he could do one of two things extremely well: grow his business or raise his kids. With characteristic zeal, he decided to devote much of the next 10 years to his family. He scaled down to his two original cookie locations and didn't look back. "I take the role of husband and father very seriously," he says.

For 10 years, Selden's primary goal in life was to be the best husband and father he could be. He went to all his children's games and made sure he was

NAME: Bryan Selden

TITLE: Partner/General Partner

COMPANY: Lone Star Restaurants/Dough Rollers

NO. OF UNITS: 10 Great American Cookie; 7 Smashburger; 7 Wingstop; 3 Pretzelmaker; 2 TCBY; 1 Coffee Beanery; 3 Jersey Mike's Subs open and 2 under construction with a development agreement for 28

AGE: 54

FAMILY: Married for 30 years to Sarah Selden. Three children: Elizabeth, 26, Matthew, 24, Mary Caroline, 18. Two grandchildren: Carson, 4, and Brendon, 2.

YEARS IN FRANCHISING: 24

YEARS IN CURRENT POSITION: 24

PERSONAL

Key accomplishments: I've won multiple Franchisee of the Year awards, but my favorite accomplishment is watching people in our companies grow and achieve their dreams. If they achieve their dreams, then they help me achieve mine.

Biggest mistake: A full-service hamburger concept. As my younger daughter would say, "epic fail."

Smartest mistake: There were two events that could have been taken for a mistake at the time the decision was made. 1) Leaving a "secure" career with Exxon research and engineering and going into business for myself. 2) Selling down to just two stores for 10 years so I could concentrate on raising my children. I have zero regrets on either decision. I started growing again in 2003.

How do you spend a typical day? Thank goodness there are no typical days, but it is usually a combination of office, meetings, or travel.

Work week: I work three to seven days a week. It just depends on what is happening that week.

Favorite fun activities: Until our youngest child graduated from high school in May it was coaching and/or watching our children play sports. I know my way around most towns by how far something is located from a baseball or softball complex.

Exercise/workout: By the time this is published I hope to be more into a cross-fit routine. Right now I'm walking, biking, and lifting weights.

Favorite tech toys: Pretty much anything Apple, especially the iPhone.

What are you reading? I usually alternate between a business book and a biography or military history. I never read fiction. Right now I am reading *It's Not Just Who You Know,* by Tommy Spaulding, and *Colonel Roosevelt* by Edmund Morris.

Do you have a favorite quote or advice you give? Plan your work, work your plan.

Formative influences/events: The key influence would be my parents. They worked hard and could look anybody they met in the eye knowing that they had not wronged them in any way. I try to emulate that behavior. As to an event, it would be my marriage and the birth of my children. I take the role of husband and father very seriously.

How do you balance life and work? Family comes first, period. But sometimes the best thing you can do for your family on a given day is actually business-related.

"I am calm and steady 99 percent of the time. Give me space on the other 1 percent of the day."

MANAGEMENT

Business philosophy: Integrity and honesty are more important to me than money.

Would you say you are in the franchising, real estate, or customer service business? Why? Customer service. It is competitive out there, and if you do not take care of the customer then the other things don't matter.

What gets you out of bed in the morning? We have a lot of stores to build.

What's your passion in business? Making sure that no customer ever leaves one of our stores unhappy.

Management method or style: I am much more comfortable delegating now. I opened and closed my first store for a full year. I just didn't think anyone else could do it as well as I could.

Greatest challenge: Trying to make sure that our company culture permeates all levels, not just the management teams.

How close are you to operations? Closer in some brands than others, but it's always a priority.

Personality: Calm and steady 99 percent of the time. Give me space on the other 1 percent of the day.

How do others describe you? Probably the same as above.

How do you hire and fire? I hire slow, fire fast. I heard that at a brand convention. I like it.

How do you train and retain? We have thorough training programs, and we try to retain by offering opportunity for advancement, even if it means going to another brand.

there when they needed him. While he certainly continued to work, he put the business world on the back burner.

When his eldest child graduated from high school, and with the younger two more grown-up, Selden decided that maybe it was time to start thinking about growing his franchising business once again. "I jumped back in during 2003," he says. "I talked to my wife and children, and they agreed. And it just took off. The key to this was operational."

He lined up with two key partners—Jeremy Roy and Chuck Schrick. Today he and his partners oversee 35 locations that include 7 franchise concepts. They have an ambitious development agreement in place with Jersey Mike's for Central and East Texas and have plans to grow the other brands as well.

Not everything has been a stellar

success for him. The full-service hamburger concept he tried didn't live up to expectations. But he's had a lot more successes than failures along the way.

Today, Selden can look back and smile when he thinks of the time he opened and closed his own cookie franchise. Today he has about 500 employees on the payroll and a multimillion-dollar operation.

Being bigger hasn't changed any of Selden's original ideas about being the best at whatever he does. Five years down the road he and his partners plan to have their current development agreements wrapped and running. But in a world of franchising opportunities, Selden expects that new challenges will appear.

He plans to tackle them all head-on. And if any don't work out, it won't be for lack of him giving any less than 100 percent. MUF

BOTTOM LINE

Annual revenue: North of $25 million

2011 goals: We added Jersey Mike's a few months ago. I am very excited about the concept and trying to learn all I can about that brand. As to our goals for expansion, we are adding units in Wingstop, Smashburger, Jersey Mike's, and TCBY self-serve.

Growth meter: How do you measure your growth? They say volume is vanity, but a strong top line sure makes the rest easier.

Vision meter: Where do you want to be in 5 years? 10 years? In five years we will have completed all our present development agreements, but I would be shocked if we had not added something new. In 10 years I would like to be somewhere cool in the summer and warm in the winter.

How has the most recent economic cycle affected you, your employees, your customers? The downturn has presented us with many opportunities that we might not otherwise have had. We have been able to attract some great people from other brands and also some great real estate.

Are you experiencing economic growth or recovery in your market? Texas has remained pretty stable through the downturn.

What did you change or do differently in today's economy that you plan to continue? We are operating leaner and are very particular about locations.

How do you forecast for your business in this economy? Once again, we have grown through the tough times. We are cognizant of the overall economy, but we are finding great opportunities.

Where do you find capital for expansion? Internal cash flow, partners, and banks.

Is capital getting easier to access? Why/why not? I see no change so far other than the bankers are having to adjust to tighter regulations.

Have you used private equity, local banks, national banks, other institutions? Why/why not? As far as financing goes, we have always used local or small regional banks. We have long-term personal relationships with the bankers and they understand our needs.

What kind of exit strategy do you have in place? I don't really want to exit.

What kinds of things are you doing to take care of your employees? There is a lot of opportunity for advancement in our companies right now, and even possible equity in some situations.

How are you handling rising employee costs (payroll, healthcare, etc.)? Taking price increases when we can, which is not often, and trying to eliminate waste wherever possible.

How do you reward/recognize top-performing employees? Financial rewards, game tickets, and most of all opportunity.

DOMINATORS

ENTIRE U.S.
(50 states, Washington, D.C., Guam, Puerto Rico, and the Virgin Islands)

DMA	FRANCHISED UNITS
Los Angeles	17,314
Chicago	8,620
Atlanta	6,887
Washington, D.C.	6,235
Boston	5,520
Houston	5,094
Philadelphia	4,936
Dallas	4,827
Phoenix-Mesa	4,776
Detroit	4,672
New York	4,614
Minneapolis-St. Paul	4,177
Seattle-Bellevue-Everett	3,680
San Diego	3,604
Tampa-St. Petersburg-Clearwater	3,442
St. Louis	3,232
Denver	3,164
Portland-Salem	2,879
Oakland	2,878
Charlotte-Gastonia-Rock Hill	2,748
Orlando	2,727
Sacramento	2,712
Las Vegas	2,577
Nassau-Suffolk	2,489
Kansas City	2,487
Indianapolis	2,439
Pittsburgh	2,360
Fort Worth-Arlington	2,349
Cleveland-Akron	2,289
Raleigh-Durham-Chapel Hill	2,209
Nashville	2,139
San Antonio	2,137
Austin-San Marcos	2,115
Norfolk-Virginia Beach-Newport News	2,093
Columbus	2,086
Cincinnati	2,078
San Jose	1,971
Milwaukee-Racine	1,937
Newark	1,895
Fort Lauderdale	1,819
Jacksonville	1,787
Hartford	1,751
Miami	1,740
Salt Lake City-Ogden	1,691
Richmond-Petersburg	1,534
San Francisco	1,528
Greensboro-Winston Salem-High Point	1,498
Greenville-Spartanburg-Anderson	1,469
Louisville	1,457
Oklahoma City	1,445

LARGEST FRANCHISEES BY STATE

STATE/TERR.	LARGEST FRANCHISEE	UNITS
Alabama	NPC International Inc.	101
Alaska	Subway of Alaska Inc.	21
Arizona	Union Distributing Company	66
Arkansas	Sirrah Inc.	81
California	Harman Management Corp.	239
Colorado	Harman Management Corp.	109
Connecticut	Ted Crew	27
Delaware	Cato Inc.	15
Florida	NPC International Inc.	135
Georgia	NPC International Inc.	83
Guam	Johnnie Fong	10
Hawaii	JJC Hawaii LLC	32
Idaho	Jackson Food Stores Inc.	59
Illinois	Heartland Illinois Food Corp.	130
Indiana	BR Associates Inc.	111
Iowa	NPC International Inc.	60
Kansas	Dennis Rottinghaus	109
Kentucky	James Michael Jones	54
Louisiana	Strategic Restaurants Acquisition Company LLC	131
Maine	Kenneth Wagnon	25
Maryland	Davco Restaurants Inc.	108
Massachusetts	Constantine Scrivanos	45
Michigan	Kazi Management	60
Minnesota	Border Foods Inc.	151
Mississippi	NPC International Inc.	70
Missouri	NPC International Inc.	80
Montana	Kent Colvin	25
Nebraska	Joseph Aragon	37
Nevada	Crawford Oil Inc.	79
New Hampshire	Constantine Scrivanos	32
New Jersey	HMSHost	51
New Mexico	Palo Alto Inc.	78
New York	Carrols Restaurant Group	121
North Carolina	Boddie-Noell Enterprises Inc.	137
North Dakota	NPC International Inc.; Carisch Inc. (tie)	14
Ohio	Hallrich Inc.	81
Oklahoma	Wing Financial Services LLC	114
Oregon	Petrocard Systems Inc.	36

LARGEST FRANCHISEES BY STATE, *continued*

STATE/TERR.	LARGEST FRANCHISE	UNITS
Pennsylvania	Jerry (Jared) Buss	55
Puerto Rico	Puerta Del Sol	39
Rhode Island	Jan Co. Central Inc.	18
South Carolina	Rick Seagroves	38
South Dakota	NPC International Inc.; Walsh (tie)	21
Tennessee	NPC International Inc.	90
Texas	MUY Brands LLC	138
Utah	PJ McGovern	37
Vermont	Peter Napoli	14
Virgin Islands	Puerta Del Sol	3
Virginia	Boddie-Noell Enterprises Inc.	184
Washington	Oil Express Inc.	85
Washington, D.C.	Mary Lynne Carraway	12
West Virginia	Charlie Hudson	32
Wisconsin	Mark Dillon	81
Wyoming	Kent Colvin	17

Dominating Forces

Multi-unit franchisees are empire builders. Some start small, with one unit, and grow incrementally, one unit at a time. Others start bigger, with agreements to build 10, 20, 30 or more units in a market. They all eventually get to the same place: building out their territory, adding units and brands, and generating sales that run into the tens or hundreds of millions of dollars annually.

They also employ people—several hundred or several thousand—providing them not only with a way to support themselves and their families, but also with the seasoning and experience to grow professionally. How many of today's large multi-unit franchisees started as a cashier, fry cook, or dishwasher years ago, moving up the fast food chain to become managers, general managers, and, eventually, franchisees themselves?

It takes hard work, long hours, and a passion for both business and people. They know how to follow a system, nurture people, and (eventually!) to balance their work and personal lives. It's not easy—in fact it's extremely hard, at least in the early years—but all agree: It's worth it to build your own empire and to work for yourself, and, ultimately, for the people who work for you and the customers and community you serve.

Hats off to this year's dominators! MUF

LARGEST FRANCHISEES BY REGION

REGION	UNITS
EAST (DC, DE, MD, NJ, NY, PA, WV)	
Donald Harty	164
HMSHost	150
Carrols Restaurant Group	134
Target Corp.	122
Kazi Management	114
MIDWEST (IL, IN, MI, MN, OH, WI)	
Target Corp.	197
Border Foods Inc.	155
BR Associates Inc.	131
Heartland Illinois Food Corp.	130
Carrols Group	107
MOUNTAIN WEST (CO, ID, MT, UT, WY)	
Harman Management Corp.	134
NPC International Inc.	88
Convenience Retailers LLC	63
Palo Alto Inc.	60
Jackson Food Stores Inc.	59
NEW ENGLAND (CT, ME, MA, NH, RI, VT)	
Constantine Scrivanos	89
Peter Napoli	80
Carlos Andrade	68
Pepper Dining Inc.	62
HK Enterprises	58
PLAINS (IA, KS, MO, NE, ND, OK, SD)	
NPC International Inc.	232
Jeff Davis	209
Dennis Rottinghaus	183
Wing Financial Services LLC	115
Donald Rottinghaus	109
SOUTH (AL, AR, FL, GA, KY, IA, MS, NC, SC, TN, TX, VA)	
NPC International Inc.	730
Boddie-Noell Enterprises Inc.	348
Target Corp.	342
Strategic Restaurants Acquisition Company LLC	206
JRN Inc.	194
SOUTHWEST (AZ, NV, NM)	
B & B Consultants Inc.	115
Crawford Oil Inc.	79
Palo Alto Inc.	78
Union Distributing Company	66
Las Cal Corp.	63
WEST (AK, CA, HI, OR, WA)	
Harman Management Corp.	298
Jerry Ardizzone	224
Target Corp.	221
Convenience Retailers LLC	170
Boyett Petroleum	138

Source: FRANdata

BY KERRY PIPES

EMPIRE BUILDERS
MULTI-UNIT FRANCHISING CONFERENCE 2012
APRIL 24 - 26 | LAS VEGAS

EMPIRE BUILDERS

MULTI-UNIT FRANCHISING CONFERENCE ADVISORY BOARD MEETS TO PLAN 2012 CONFERENCE

Multi-unit franchisees dominate the franchise landscape today. They are the bread and butter of franchise expansion. These business people are smart, sophisticated, and determined—and their success proves it. That's why some of the best in the business have been tapped to serve on the Multi-Unit Franchising Conference Advisory Board. The group gathered in September at Chicago's historic Palmer House to map out the 2012 conference and plan the theme and educational direction of the annual conference, which will be held in Las Vegas, April 24–26 at The Mirage.

The upcoming 11th annual Multi-Unit Franchising Conference is a growing endeavor that's become a top event in the franchising world. Two of the key factors in the continuing success of the conference have been its on-target topical timeliness and the opportunities to network with fellow multi-unit franchisees, franchisors, and suppliers. Next year will be no exception.

In Chicago, board members held lengthy discussions on many topics, including how a growing governmental presence is affecting the day-to-day business of franchisees. Mandated healthcare, burdensome taxation, and a government that has simply grown too large were hashed out and identified as prime material for conference sessions and seminars. There also was a general sense that credit is finally beginning to loosen up, which would open more opportunity for franchise expansion and growth.

Board members agreed that their employees are their most important assets, and that they are always on the lookout for improved tools to help recruit and retain better employees, said incoming

> "To network with franchisees from other brands all over the country - food, service, fitness. I look for the nuggets to help me in my business. I also found a brand I am now doing business with as a result of the conference. I suggest other franchisees attend for the same reasons I go. If you are looking for a new concept, this is the place to go and be able to network with franchisees of those concepts." **– *Ken Leese***

"I attend the Multi-Unit Franchising Conference for a couple of reasons. First and foremost the networking with other multi-unit franchisees outside the hospitality industry and to learn best practices I can take into my organization. The content of the programming itself, relevant keynote speakers, and breakouts are invaluable. People should attend the conference for exactly the same reason I go: you have to get out of your own industry to learn best practices from other growth-minded franchisees to give you ways to fuel growth." ***– Ted Torres***

chairman John Metz.

They also discussed how they have expanded the number of units and brands they operate during the last three years, and they're not through. The knowledge and relationships developed at the conferences have played a role in this growth.

Appropriately, members chose the theme of "Empire Builders" for next year's conference. Simply put, these are individuals who keep growing through times both good and bad.

The meeting was sponsored by Tom Epstein, CEO of Franchise Payments Network; Joe Valeo, president of Capital Access Network; and Bill Wagner, CEO of Accord Management Systems.

Watch for developing details at www.mufranchisee.com/2012. MUF

"I have been going to the conference for 8 years, and the best reason to come is to meet great multi-unit franchisees. It is a great way to share ideas and best practices and build relationships with other multi-unit franchisees. It is truly one of the best conferences I have attended over these years. When I first started going, I thought I was a unique animal with multi-concepts. Then I met franchisees that had similar problems and situations that I have. We have also found several products in the Exhibit Hall we have implemented over our 50 units. I would dare to say that every single year I have come to the conference I have picked up a supplier I now do business with." ***– John Metz***

2012 MULTI-UNIT FRANCHISING CONFERENCE ADVISORY BOARD

- **Steve Adams** – Pet Supplies Plus
- **Robert Branca Jr.** – Dunkin' Donuts, Baskin-Robbins
- **Bob Chase** – Money Mailer
- **Greg Cutchall** –Sonic Drive-In, Famous Dave's BBQ, Tin Star, Paradise Bakery & Cafe, Burger Star, Rock Bottom, Progressive Park, Domino's Pizza, Twin Peaks
- **Sean Falk** – Salsarita's Fresh Cantina, Great American Cookies, Mrs. Fields Cookies, Pretzelmaker
- **Rocco Fiorentino** – Swiss Farms (franchisor and operator); Eagle Tax Services (partner); 2006 Conference Chair
- **David and Maureen Grimaud*** – Precision Tune Auto Care
- **Gary Grace** – Supercuts; 2009 Conference Chair
- **William Hall*** – Dairy Queen; 2008 Conference Chair
- **Aziz Hashim*** – Popeyes, Checkers Drive-In Restaurants/Rally's, Subway, Moe's Southwest Grill
- **John Hotchkiss** – Little Caesars, Firehouse Subs
- **Ellen Hui** – Former Popeyes and Extreme Pizza franchisee (currently shopping for new brands)
- **Lyndon Johnson*** – Church's Chicken; 2010 Conference Chair
- **Ken Leese** – Jackson Hewitt, Play N Trade
- **Tony Lutfi*** – Arby's, Church's Chicken, Jack in the Box, Little Caesars, Sears, Sizzler (pending)
- **John Metz** – Hurricane Grill & Wings (franchisor), Denny's, Dairy Queen, Marriott Fairfield Inn & Suites; 2012 Conference Chair
- **Ron Millard*** – Popeyes, Café Express (looking to franchise)
- **Glenn Mueller*** – Domino's Pizza
- **Stan Novack*** – Novack Consulting; 2007 Conference Chair
- **David Ostrowe*** – Burger King
- **Gary Robbins** – Supercuts
- **Cheryl Robinson** – Supercuts
- **Grant Simon** – Great Clips, Smoothie King, T-Mobile
- **Charles Smithgall III** – Aaron's; 2011 Conference Chair
- **Ted Torres** – Microtel Inn & Suites, Comfort Inn & Suites, La Quinta Inns & Suites
- **Ricky Warman** – Genghis Grill, Papa John's Pizza
- **Anil Yadav*** – Jack in the Box, Denny's, Marco's Pizza

** Not in attendance.*

Sink or Swim?

BY HELEN BOND

Dealing with underperforming and distressed units

When Greg Thomas decides whether to fix or ditch a financially troubled store, he typically thinks big. "I don't pay attention to pennies, nickels, and dimes," says Thomas, franchisee of more than 30 Great Clips salons in the Southeast. "When something is distressed, saving a few nickels, dimes, and pennies doesn't do anything. You have to increase sales 25 to 50 percent overnight."

Not everyone has his constitution—nor his experience turning distressed franchise units into profit-makers. Thomas, president of Parkside Ventures in Duluth, Ga., has made it his business to know whether a store has profit potential or will continue to bleed red (for an in-depth profile of Thomas, see www.franchiseupdate-digital.com/franchisee/2011iss3).

When a franchise unit flounders, knowing where trouble lies can make or break a multi-unit operator's effort to launch a successful turnaround. The direction that effort takes depends on whether the business is underperforming (not meeting its potential) or is in financial distress (cannot pay its bills). The distinction can be critical when turnaround time is money and operators face increasing pressure on several fronts.

"Landlords don't want to adjust rents, franchisors don't want to adjust royalties, and no one wants to take a haircut," says Anand Gala, president and CEO of Costa

Mesa, Calif.-based Gala Corp., which operates 25 Applebee's and Famous Dave's restaurants in Southern California and Phoenix. "The franchisee is now shouldering 90 percent of the risk associated in the business. Previously it was closer to 50 percent."

These financial challenges, heightened by lackluster sales, governmental regulations, taxes, healthcare uncertainty, labor costs, and tight credit, mean multi-unit franchisees today have much less operating margin for error, says Gala, whose company also provides consulting and management services to franchisees.

Data-based prayer?

Can you control what is ailing your business? Franchise attorney J. Michael Dady, whose Minneapolis-based firm Dady & Gardner has represented more than 350 franchise and supplier organizations, says that when a unit underperforms this is a great first question to ask. His firm even provides a kind of franchisee "Serenity Prayer" that seeks the wisdom to be able to determine what can, and cannot, be changed and the courage to know the difference, move forward, and make changes—even after you've been told there is nothing more for you to do.

If a unit's location is good and the brand is solid, problems with operations can usually be fixed, says Thomas. The swiftest way for a multi-unit operator to get a feel for a unit's controllable issues is to know its numbers—and study every line. Thomas likes to look at P&Ls month-to-month, rather than annually.

"I concentrate on sales, sales, sales—nothing else," says Thomas, who operates 32 Great Clips units with partner Grant Simon. "I know how much money each store should be making, and if it's not making that much money I raise prices. If my store is not growing double-digits, I want to get rid of it."

The numbers also help Thomas target his strategy during the acquisition stage. A look at the P&L of one struggling unit pointed to internal theft. He fired the suspected employee and sales instantly rose 25 percent. Cash flow at another poor performer was positive within a week after Thomas took over, just by reconfiguring employee pay.

"When something is distressed, saving a few nickels, dimes, and pennies doesn't do anything. You have to increase sales 25 to 50 percent overnight."

—Greg Thomas

With a restaurant, for instance, says Gala, analyze the core operating costs of goods, food, beverage, merchandise sales, and labor and compare them with locations that have similar volume. If there is a disparity, there is a problem.

If your portfolio is smaller, don't be afraid to seek guidance from someone you trust within your brand. When Gala suggested this tactic to a client, the restaurateur initially balked, concerned that revealing this information would somehow undermine his recovery efforts. Once that hurdle was cleared, the client met with another franchisee within the brand and the two operators shared menu, pricing, and sales data. The client also sent managers to his fellow franchisee's restaurant to train for three days, a move that instantly raised service and quality at the struggling restaurant. The result? "Everyone's sales went up," says Gala.

Also, when studying the numbers of a struggling unit, don't overlook the middle of the P&L sheet, says Gala. A lot of wastefulness can occur over time when no one is watching the numbers carefully. For instance, studying the financials of a sit-down dining location that he took over, Gala discovered that the restaurant paid people to water and change the plants in the dining room. Cutting unnecessary expenses can add up to 3 percent to the bottom line, he says.

Customers talk, customers walk

Whether your franchise units sell hamburgers, haircuts, or home repair services, customers can offer clues as to why business is down. Gala encourages franchisees to use a guest service measure or index to gather performance information. Don't have one? Make up your own, use a mystery shopper program, or hire someone to look for customer-service quality indicators such as clean restrooms, consistent food quality, and friendly employees. With the rapid growth of social media and online rating sites such as Yelp, public perception can change quickly.

"Life is too short to put up with a bad attitude," says Gala. "If there is another KFC around the corner or a McDonald's across the street, people defect much more quickly now than five years ago."

In 2009, it took just one visit to Andy's Burgers, Shakes & Fries in Lumberton, N.C., for franchisee J.R. Cottle to see why the restaurant performed at the bottom of the nearly 100-unit chain. The store

was dirty, equipment faulty, and the employees uninspired, says Cottle, who started with Andy's Burgers as a part-time "fry guy" at 15, purchased his first location when he was 24, and today operates the chain's top store, in Locust, N.C.

Cottle hired a former employee to manage the unit, fired the entire staff, scoured the store, and invested in new equipment. "We had the wrong people in place," says Cottle, whose company, J.R. Cottle Inc., will post $2 million in sales this year. "We were not looking for the best people, but for the right people who would be invested in the company's success. You don't have to be the best waitress, you just have to be a good person. It's harder to teach character than talent."

Cottle's strategy paid off. In just six months, he rebuilt relationships with the community and doubled same-store sales. Hearty growth and the highest turnaround in the company continues today.

Sometimes external circumstances that are no fault of the operator can wreak havoc. A change in the market, pressure from new competition, the exit of a mall's anchor tenant, or road construction that blocks access all can hurt sales.

When road construction turned a bustling Taco John's franchise into a distressed unit, the franchisee, a client of Dady's, went to the franchisor for help. The franchisor, to its credit, allowed the unit to relocate, says Dady. "That is an example of a franchisee wise enough to ask for help," he says. A property owner with multiple properties may also be able to move a struggling unit to another location within their portfolio and renegotiate the lease.

Sometimes a franchisee is too close to the problem to see the situation clearly. Dady and Gala both emphasize the benefit of taking a step back and seeking legal counsel, asking your franchisor for help, or consulting with another franchisee for advice.

"Landlords don't want to adjust rents, franchisors don't want to adjust royalties, and no one wants to take a haircut."

—Anand Gala

Do your homework—diligently!
Stores close, even in good times. An operator's solid track record, relationships, and open communication can play a successful role in negotiating a reasonable termination. It pays to study your loan document, lease, and franchise agreement carefully before acting.

"You had better read the fine print first of both your lease and franchise agreement before you close the doors or those things will be a huge noose around your neck," says Thomas.

Some franchisors may demand future royalty payments for closed units or refuse to allow franchisees to shut down or relocate. Lee Plave, founder of law firm Plave Koch in Reston, Va., says some of his clients take a firm stance on early termination agreements while others are open to negotiation under certain circumstances. Terminating a franchise agreement should be the result of negotiation, says Plave, who represents franchisors and distributors.

Franchisors will seek to determine whether the distress is isolated or represents a broader problem within the franchisee's system, says Plave. And as long as the franchisee doesn't come in with a "flamethrower's mentality," he says, "people of good faith can find a way to approach the problem. Usually there is a solution that can be found."

Gala agrees that negotiation and concessions, including a reasonable termination fee, are possible. "The smart franchisors are the ones who are not looking to add insult to injury. They are not shortsighted or greedy. That just isn't good business ethics," he says.

No matter how the story of a struggling unit ends, multi-unit franchisees should keep the big picture in mind to ensure the success of their entire portfolio. And whether your store is underperforming or a day away from closure, the key is to maintain a set of standards to keep customers loyal to the brand, says Plave.

"It's kind of like a duck that looks calm above the surface, but underneath the water the legs are flapping away," he says. "If you have problems, make sure the public doesn't see. The moment the public starts to see the situation is the very moment that the franchisee has no choice but to act quickly, decisively, and without options." And that just isn't good for anyone's business. MUF

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Tips for Relieving Distress

Once you have looked at what you can control in a struggling unit, analyze its fixed expenses, such as rent, royalties, property taxes, and debt service. If costs are in line and fixed expenses consume a large portion of your P&L and cash flow, the unit is in distress.

"Rent and royalties are big. You have to assume those won't change," says multi-unit operator and franchisee consultant Anand Gala.

The following strategies may help cure a distressed unit:

• **Tax relief.** Ask your local government to reassess the value of your property, particularly if the assets of the business have declined and the property is worth less than it was when last assessed. Gala says a franchisee can win this appeal 75 percent of the time.

• **Rent reduction.** In this economic climate, a property owner is not likely to rent space at the same rate the franchisee currently is paying. Many property owners will consider rent relief a mutually beneficial solution, particularly if the reduction is considered to be temporary. Not every landlord has found religion, says Gala, but his company has been able to restructure leases 75 percent of the time.

Attorney Michael Dady of Dady & Gardner also has had success going back to the negotiation table. "If the space is going to go dark, the property owner will cut the rent, rather than have no rent at all," he says.

Not every landlord has found religion, says Gala, but his company has been able to restructure leases 75 percent of the time.

• **Restructure debt.** If you can get out of your current loan without a substantial penalty, now is the time to refinance. Many operators are still paying 8 to 10 percent. An SBA loan can cut that interest rate in half and improve cash flow. Keep in mind that lender and lease negotiations and property tax reassessments can take months—a big problem when time is critical.

• **Talk to your franchisor.** There are instances when a franchisor will grant royalty rate relief on an underperforming unit—but that is typically a condition negotiated before taking over a unit. Still, experts encourage distressed franchisees to open their books to the franchisor. Some franchisors will grant royalty relief, analyze operations, help implement a marketing plan, or even help temporarily fund overhead.

If you have hit a wall in your evaluation and negotiations with the franchisor lender, and landlord, it may be time to make a hard decision. "If what you have to pay for the rest of your lease is $50,000 for the year and you are losing $100,000," says Gala, "you may be better off closing and carrying the $50,000." MUF

BY KERRY PIPES

Deals on Wheels

Mobile food trucks are delivering the goods

The roach coach has hit the road, Jack.

Those sanitarily questionable movable feasts that have rolled through America's cities for decades are being replaced. Filling the void come this year's models: clean, efficient, state-of-the-art mobile food trucks with kitchens, griddles, stoves, and all the refrigerated machinery a small restaurant could possibly need. A new day has arrived for mobile food trucks, and a dynamic market shift is under way.

Major U.S. cities have experienced an increase in mobile food trucks during the past few years. Often, they are mom-and-pop operators who rove industrial parks and office complexes in search of hungry customers. In some cities, mobile food parks with a dozen or more trucks and trailers representing all types of mobile food vendors have set up camp, offering everything from subs, sandwiches, and ethnic specialties to espresso, desserts, and more.

The trend has been driven by a more cost-conscious and mobile public in search of convenience, variety, and value. For example, industrial workers may not be able to leave their jobsite for lunch, or office park workers may not have the time to fight traffic and crowds at restaurants. Herein lies the beauty of the mobile food truck operator model, which can provide a simple fix for customers by delivering the goods hot, fresh, onsite, and right on time. Some mobile food truck operators remain on the go all day and communicate their next stops to their fans on Facebook and Twitter.

Franchises hit the road

Franchise brands are beginning to take notice of the mobile food truck trend. Some are still kicking the tires while others have already outfitted franchisees who are rolling down the road to revenue. Franchisors have been exploring the mobile food truck model for many reasons:

- **To test and research markets.** If there's demand in certain areas (especially where there are limited brick-and-mortar sites available) mobile food trucks can help identify a new market for permanent franchise locations.
- **Cost.** Mobile trucks also can be significantly less expensive to start up and operate than a standard location, providing individuals interested in franchising with another (and usually less expensive) entry point.
- **Branding.** Some have been using mobile trucks as a corporate branding/marketing tool, a kind of moving

Randy Wolken

billboard. The trucks also can be stocked with culinary goodies and driven to public and promotional events and hired to cater private gatherings.

One of the biggest questions franchisors are now asking is, "Are we everywhere we need to be?" Mobile food trucks may help answer that question.

There's no denying that the mobile food truck trend is one to be reckoned with. We caught up with three franchisees who have been up and rolling for at least a few months who provided assessments of their markets, strategies, customer base, and the future.

Tasti truck delights

Aaron Webster is the Tasti D-Lite area developer for the Houston market. He operates three brick-and-mortar stores and launched his first mobile truck in the summer of 2010. Webster first spotted a Tasti D-Lite truck on the streets of New York City where it was mostly being used to promote brand awareness.

One of the biggest questions franchisors are now asking is, "Are we everywhere we need to be?"

"I thought I could adapt what they were doing with the truck in New York to my market in Houston," he says. Webster pitched his idea to corporate and purchased the bubble-gum-pink truck for about $100,000. He saw the value in the truck because he could expand his business without incurring the build-out costs and ongoing rent of a new store. He's the first (and so far the only) Tasti D-Lite franchisee with a truck.

On board the truck, he's ready to roll with a small refrigerator, freezer, sinks, countertop, soft-serve machine, toppings bar, and power generator. The bright pink exterior features the brand's logo and website address.

Webster has mostly used the truck to cater events throughout Houston, such

Research on the Go

Kevin Higar, *senior manager at Technomic, a foodservice industry research firm, spent several months earlier this year in nine cities visiting more than 100 independent mobile food truck operators. His on-the-ground research produced one of the first major mobile food research reports (see "Keep on Truckin'" sidebar), detailing how these operators think and work, and the strategies they employ. We asked him to offer some insights on this emerging market for franchise brands.*

What are brick-and-mortar franchisors asking you about mobile trucks? Primarily about the applicability of also using food trucks as part of their overall business strategy. My response has been that: 1) they provide a relatively inexpensive opportunity to check out new potential sites, talk to potential customers in that area, look at their behavior patterns during different day parts and days, and observe competitors in the area; and 2) on a more permanent basis, there may be occasions where a food truck really is the sort of non-traditional business model for a particular area (residential or urban areas that don't have restaurants, and the future potential for them in that area is not that feasible).

What kinds of franchise brands could benefit most? If you are a brand known for a few "signature" items, then that fits the success model pretty well. Food trucks can't really be too expansive with their menus; there just isn't room to do that. You may be working off one flat top and perhaps a fryer or two (or in some cases other specialized culinary equipment). The successful trucks must be able to operate and execute a menu within those constraints. Otherwise, the time to complete an order could be too long.

Are food trucks a good way to launch a franchise brand? They can be. There are certainly food truck operators that started with a mobile format and then expanded to a brick-and-mortar format. From a cost perspective, it can also be less expensive to become operational, so that provides the potential to get more presence in an area more quickly.

Are food trucks the latest fad or here to stay? Consumers tell us they are here to stay. From my own observational perspective, they are filling a few foodservice basic needs. They are providing unique taste profile foods and beverages, and, even more important, they are able to integrate into consumers' lifestyles. By their very format, they can be where people want them, when they want them there, and typically with a straightforward menu that makes the food selection decision process very straightforward.

What's ahead for the mobile food truck model? Much of the future success is going to depend ultimately on how municipalities end up treating the balance between brick-and-mortar shops and these new food trucks. Where do they let the food truck folks set up shop on a longer-term basis? ■

as Christmas and holiday parties, private events including fundraisers and church get-togethers, and local fairs and sporting events. He says he can offer up to 90 percent of his physical store menu from the truck.

Another plus: "Customers can go to our website and reserve the truck online for their events," he says. "One of the added bonuses is that every time the truck is headed to an event we're getting the effects of a giant mobile billboard." He's even considered hiring someone to drive the truck around on days when it's not needed for catering.

So far, his truck is still a relatively minor revenue generator for his growing franchise operation. Webster says he typically uses it at two to three events a week—and he can staff it by himself or with one other employee for larger events.

Webster is pleased with his investment and says the marketing benefit the mobile truck provides has been incredible for him. "The truck is a high-impact tool that provides another sales point and good margins for my business," he says. And the potential for expanded use is huge. "I can definitely see us going beyond the catering events and testing the waters of food parks and office complexes."

Tom Jones

Pizza Delivery 2.0

Wisconsin-based Toppers Pizza launched its first "mobile pizza store" in July. The brand is one of several testing the waters of mobile food delivery vehicles. Executives hope it's a move that will help them gain market share in the highly competitive pizza sector.

"Thus far we are only using the truck within the delivery area boundaries of a corporate-owned market," says Scott Iversen, director of marketing at Toppers. "We want to determine the best ways to use the truck to capture additional sales from a current trade area before suggesting to franchisees to make an investment in one for their areas."

Iverson sees several potential advantages to the mobile model. First, he believes the trucks will help capture more "impulse sales" opportunities than a traditional brick-and-mortar location could. "On average, our franchises already produce very high average unit sales ($941,000 a year)," he says. "But if we could build on those high averages with a model that produced even more revenue from the same-sized trade area, that would be an attractive investment for our franchisees."

"Social media is the vehicle we use to tell people where we are going to be and when."

He also says the truck could be great for convincing customers to give the brand a try. "In a mobile store we can offer our same products in smaller, trial-sized portions for a lot less, and they're ready without having to wait to be delivered or picked up," he says. And the truck serves as a constant visual reminder that there is a Toppers store in the neighborhood.

Iverson says the first truck was built for about $160,000, but he thinks it could be done for less. Compare that with the $400,000 it typically takes to build a store; and the truck features much of the same equipment found in their stores. "We can produce over 100 full pizzas per hour in the truck with capacity to triple the product volume by adding two more ovens if we need to do so," he says. "The big advantage the truck has over a regular store is that many of the fixed costs are one-time expenses (building and equipping it) rather than ongoing expenses (rent, utilities, etc.)."

And since fixed costs are lower, the truck offers a much higher profit margin. "Our current brick-and-mortar stores average $161,000, or around 17 percent profit," says Iverson. "Profit margin in the truck can approach 30 to 40 percent on the best days." He notes that it still comes down to maximizing the same three important variables as in any restaurant: top-line sales, food cost, and labor cost.

Iverson believes social media will play a critical role in the mobile truck plans at Toppers. "Social media is today's word of mouth. It is where people are having conversations with their friends and family," he says. "If we want to be a relevant part of people's everyday conversations, we have to be present in the space where they have those conversations. Social media is the vehicle we use to tell people where we are going to be and when." ■

Subs on the roll

Tom Jones has been a Cousins Subs franchisee since 2006. He operates four restaurants in Milwaukee County and runs two mobile trucks, which he parks strategically outside various businesses and offices. He says the customers are built in because there are no restaurants near the offices where they work.

"Our trucks provide more opportunity for additional business for us," he says. In addition to working the business lunch crowd Monday through Friday, he often takes the trucks to festivals and similar events on weekends.

Jones says acquiring his first truck was almost accidental: it came with the purchase of one of his brick-and-mortar locations. "I had the idea to fix it up and make it feasible for delivering our sandwiches," he says. He has since purchased a second truck (at a cost of about $35,000) to build his fleet—and his bottom line.

"The franchise brand name helps us sell sandwiches because people know they can depend on the quality and safety of Cousins Subs."

"It's a simple operation. We prepare and prepackage the sandwiches in advance and are happy to take special orders from our customers if they call the morning before we head out," he says. The trucks have all the necessary refrigerated storage space. He keeps seven of his most popular sandwich offerings on the trucks and makes room for any special advance orders. Depending on the day and demand, he says, each of his trucks can sell anywhere from 40 to 150 sandwiches every day.

The key to delivering food to customers, says Jones, is to be there on time. "We treat our food trucks just like a regular brick-and-mortar store. We are where we say we are going to be on time every day. Those customers are depending on us."

Jones says he believes that having a recognizable brand benefits him as a mobile food provider. "The franchise brand name helps us sell sandwiches because people know they can depend on the quality and safety of Cousins Subs." Additionally, he says, corporate Cousins Subs marketing teams help him by promoting not only the brand in his market, but also his trucks.

Jones says he can run each of his trucks with a single dedicated and fully trained employee. When they return from the lunch run they can simply finish off their hours at the store.

"The trucks have been a great tool for us," he says. "They offer an additional way to generate more sales, increase profits, and build our market share."

NRA Food Truck Study

"Food trucks are one of the hottest trends in the restaurant industry right now, and consumers are showing increasing interest in mobile foodservice." That's the conclusion of the National Restaurant Association after surveying 1,004 American adults about mobile food trucks from August 25 to 27. Some numbers from the survey:

- Nearly 6 out of 10 (59 percent) would be likely to visit a food truck if their favorite restaurant offered one, up from 47 percent one year ago.
- Nearly one-fifth (18 percent) saw a food truck in their community this summer.
- More than one-quarter (28 percent) of those who saw a food truck this summer made a mobile foodservice purchase.
- Consumers living in the West (29 percent) and Northeast (24 percent) were much more likely than those in the South (15 percent) and the Midwest (9 percent) to see a food truck parked in their community this summer.
- Adults with children (70 percent) were more likely than those without children (52 percent) to say they would patronize a food truck if it were offered by their favorite restaurant.
- A solid majority of younger consumers said they would be likely to visit a food truck if offered by their favorite restaurant: more than two-thirds of those age 18 to 44, compared with 38 percent of those 65 or older. ■

Site selection on wheels

Randy Wolken is a pioneer in Dallas. He's the first to bring Gandolfo's New York Delicatessen franchise to the Dallas market—and the master franchisee is doing it exclusively through the brand's mobile truck units. Wolken has also signed on to develop sister brand Petro's Chili & Chips in the Dallas market during the next year (both are brands of Pool's

Restaurant Group).

Originally, Wolken had planned to open traditional brick-and-mortar stores, but the mobile trucks offered him a way to get into the Gandolfo's brand for about a third of the cost of a physical location, healthy revenue numbers, lower overhead, and the opportunity to identify strong market areas that might support a standalone location later.

"I know my market, and the truck helps me gauge different parts of town while building awareness of the brand," he says. "One of the things I'm looking to identify is can the Dallas market support the Gandolfo's brand?" He's essentially using his truck as a market analysis and site selection tool. And, of course, his truck is a mobile billboard to introduce the Gandolfo's brand to the Dallas market.

Wolken loves the flexibility of the mobile truck model and says he plans to add more trucks soon—at least one more by year's end. He likes that the truck gives him the ability to search for better sites while also reducing his operating costs.

"It takes fewer employees to run the truck," he says. And did we mention it also eliminates the costs of building and maintaining a restaurant?

Keep on Truckin'

Trends in mobile food truck business

Technomic, a foodservice industry consulting and research firm based in Chicago, recently completed a study of mobile food vehicles (MFVs) involving more than 100 independent mobile food truck operators in 9 different cities. Here are some of the key findings:

CONSUMERS

• MFVs are still somewhat unknown: 1 in 5 consumers said they are not aware of them or have not seen one.

• One-third of individuals aware of MFVs have not purchased from them.

• Although MFV customers tend to skew younger, 34 percent of food truck users aged 51 to 60 reported visiting once a week or more.

• Location and convenience are key consumer purchase drivers.

SIX REASONS OPERATORS BECAME MOBILE FOOD VENDOR ENTREPRENEURS:

- Lost job/unemployment
- Be their own boss
- Promote and introduce existing brick-and-mortar business
- Test concept feasibility before investing in traditional outlet
- Capitalize on artisan skill set
- Lower start-up costs than traditional restaurants

10 TOP PLACES FOR MOBILE FOOD TRUCKS

- Food trailer parks
- Near office complexes
- Along busy roads
- Downtown urban areas
- Retail-centric locales
- Recreation destinations
- Farmer's markets
- Private catering events
- College campuses
- Public events

WHAT THE TRUCKERS SAY

- Choose locations wisely
- Know your competition and marketplace
- Keep the menu simple
- Cook/assemble quickly
- Prep ingredients in large batches and hold for service
- Charge competitive prices
- Know the codes
- Use social media
- Offer an experience
- Product and/or personality matter
- Budget for bad weather (sales can fall 40 percent or more)
- Cater business meetings and social events
- Be open to potential retail opportunities
- Think beyond the truck

THE FUTURE

• The vast majority of MFV customers were satisfied with their experience across all day parts and mobile food vehicle types.

• 91 percent of consumers familiar with MFVs say they will have staying power and are not just a passing fad.

• Only 7 percent of consumers who use MFVs expect their visit frequency to decrease over the next year.

• The key to long-term success for MFV operators is to bring current non-users into the fold (70 percent of non-users said they are not likely to try an MFV).

• Location (cited by 42 percent) is the biggest barrier to non-user patronage. If more municipalities create or amend their regulations in a manner that is favorable for MFVs, this barrier will be minimized. ■

Source: *Technomic*

“It takes fewer employees to run the truck,” he says. And did we mention it also eliminates the costs of building and maintaining a restaurant? (The average initial investment to open a Gandolfo’s restaurant ranges from $259,300 to $399,200.)

For now the truck model suits him just fine. Dallas law requires Wolken to lease space in a central commissary where he cooks and prepares food each morning before loading up the truck and heading out on his runs. He has used Google Earth to identify promising high-rise and office building areas. He then looks for private property owners nearby that will allow him to park. “I’ve discovered that you can’t jump around all the time. You have to identify good spots and then show up regularly,” he says.

Wolken serves up his goods Monday through Friday while still managing to clean the truck and see to administrative tasks. He often takes the truck out on weekends to events and festivals.

Although he is glad to be associated with a franchise brand, Wolken says most of his customers see him just like a “mom and pop” operator, and he uses that to his advantage. “I look to create a very personal relationship with my customers,” he says. “We are not an impersonal cookie-cutter mega brand.”

Wolken says there’s even a kind of kinship among fellow mobile truck operators. “We can actually work together. Right now I’m considering teaming up with a shaved ice truck: I offer the lunch and he offers the dessert, all in one stop.”

The general public is in love with the idea of mobile food trucks right now, says Wolken. “As a franchisee, trucks provide an affordable and scalable way to grow your business. It’s been a profitable decision for me.” MUF

BY ANDY GUSTAFSON

Tax-Deferred Exchanges

A creative financing tool for franchisees

Smart franchisees are always looking for ways to increase cash flow and reduce expenses. One strategy to consider for improving the bottom line is to replace a franchise property with one in a better location or to upgrade equipment. Franchisees can use a creative financing tool, 1031 exchanges, to defer capital gains and recaptured depreciation taxes when purchasing real and personal property of equal or greater value. Savings on deferred taxes represent interest-free loans for higher-yielding acquisitions. Successful completion of a 1031 exchange depends on finding eligible replacement property and meeting identification and transaction deadlines.

How a 1031 exchange works

Tax-deferred exchanges, also known as 1031 exchanges, are enforced by the IRS. According to IRS Code Section 1.1031, no gain is recognized on property held for productive use in business or investment when exchanged for like-kind business or investment property (property denotes real and personal property). The replacement property must be of equal or greater value than the property sold, or a tax is triggered on the difference. The franchisee must identify replacement property within 45 calendar days and complete the transaction within 180 calendar days. [Extension of the identification timeline and exchange completion can be granted given presidentially declared disasters including flooding, tornadoes, hurricanes, fires, terroristic or military action, or exchangor (taxpayer) serving in a combat zone.]

Examples of eligible replacement property options include land and improvements; improvements to an existing building; improvements to land already owned; and leasehold interests.

Franchisees can upgrade equipment and defer taxes when replaced with the same like-kind, like-class of furniture, cooking equipment, refrigeration, and fixtures. The franchisee's accountant can classify like-kind equipment based on 13 general asset classes or the North American Industry Classification System (NAICS). The accountant can also determine whether it makes sense to initiate an exchange when the gain on personal property is sold.

The qualified intermediary is responsible for drafting the exchange documents and holding the exchange funds in a safe, segregated, liquid escrow account. A person who has acted as the exchangor's employee, attorney, accountant, investment banker, broker, or real estate agent within the two-year period before the exchange cannot serve as a qualified intermediary. Routine financial title insurance, escrow, or trust services will not be taken into account.

> Franchisees can use a creative financing tool, 1031 exchanges, to defer capital gains and recaptured depreciation taxes when purchasing real and personal property of equal or greater value.

1031 exchange benefits

Franchisees can engage in exchanges for the reason of consolidation, relocation, diversification, appreciation, cash flow, and depreciation. A 1031 exchange allows for the indefinite use of taxable dollars interest-free toward the replacement property. However, the transaction is not tax-free, and the tax obligation is deferred or pushed forward indefinitely until the replacement property is sold. If the personal property is not exchanged, then the tax is paid on the personal property. The interest-free loan or principal provides a return given the time value of money and appreciation of the replacement property. The potential risk is a higher tax rate than the return on the principal when the taxes are eventually paid.

1031 exchange strategies

Depending upon whether the new property is a built to suit, starting with raw land, or improvements are made to an existing site will determine if a reverse or forward exchange is structured by the qualified intermediary. If improvements or a build-to-suit are not required, then most likely this will be a forward exchange, in which the taxpayer closes on the old property first and then completes the transaction for the replacement property. If improvements or a build-to-suit are needed, the steps can be either a forward or a reverse exchange. In a reverse, the new property is acquired first, followed by the identification of improvements and old property to be sold, constructing the improvements, and selling the old property.

How to avoid potential risks

Timing is crucial for successful completion of a 1031 exchange. The taxpayer will have to pay capital gains and depreciation taxes if the transaction is not completed in 180 days. Personal property acquired but not affixed is not eligible for the tax deferral. Capitalized costs such as accrued real estate taxes, rent, and planning costs are eligible for gain deferral.

For example, a multi-unit fast food restaurant franchisee initiated a 1031 exchange. The franchisee sold one of their locations with the intent of purchasing land and building a new store. The first leg of the exchange went smoothly and the old or relinquished real and personal property were sold. The funds were wired to a segregated escrow account under the franchisee's tax identification number, earning interest.

However, finding the property, securing a contract, and having it scored by the franchisor took many months. Securing building permits took more time. Once the land was acquired, construction began. Unfortunately, the late purchase consumed 120 calendar days of the 180 available in a 1031 exchange. The construction crew completed as much as possible, but at the end of the 180 days the building was not 100 percent complete, resulting in a reduced tax deferral. At the start of the exchange, the franchisee had the right intent, but the exchange timeline was compromised by the extended time to negotiate, close on the land, and secure the permits to start construction.

Knowledge of the primary exchange rules can help franchisees take advantage of tax-deferred exchanges and avoid potential risks when trying to improve their bottom line.

In hindsight, had the franchisee located property or was in contract for the replacement property at the time of the old property sale, their anxiety of meeting the 180-calendar-day burden and incurring a tax they intended to defer could have been reduced. The franchisee could not delay their first leg closing. Knowledge of the primary exchange rules can help franchisees take advantage of tax-deferred exchanges and avoid potential risks when trying to improve their bottom line. MUF

Andy Gustafson, *Certified Exchange Specialist, serves as a managing member of Atlas 1031 Exchange, LLC, a nationwide accommodator of Internal Revenue Code Section 1031. To date, he has accommodated 497 exchanges representing $432.7 million in exchanged value and deferral of $21.6 million in taxes. Contact him at 850-496-0090 or andgus@atlas1031.com.*

BY DAVID ELLIS

Counter-Measures

Protecting your customers' credit card data

You may not know it yet, but you are at war. An unprecedented battle rages over what you are entrusted to protect: your customer's credit card data. Your IT infrastructure is the last line of defense between you and a powerful enemy composed of a myriad of attackers with finely honed hacking skills, backed by organized crime. At the center of the fight today are multiple-franchise merchants. Visa corroborates this in stating that up to 97 percent of data compromises are suffered by smaller merchants and "specifically franchisees." The possibility of gaining access to a multiple-franchise network is a tempting prize, and attackers are relentless in their efforts to obtain customer credit card data.

Recent experience confirms that hackers are increasingly exploiting a common potential vulnerability, giving them unrestricted access to your system through your own remote access application. Remote access applications are not inherently vulnerable, but when weakly configured it's the equivalent of locking the gates to the city with a paperclip.

Beware: If you can access your systems remotely simply by entering the correct username and password, a hacker can wage a "brute force" attack and reveal your login credentials. Once inside your network, attackers are free to create their own administrative credentials, install malware designed to capture or record credit card transactions and cardholder data, and export it out of your network—leaving few traces of their actions. Payment Card Industry Data Security Standards (PCI DSS) require a secondary authentication factor before remote access is granted. Known as two-factor authentication, a typical yet effective "second factor" could require having to call into the merchant location and be granted access by an onsite manager.

On the perimeter

If hackers cannot breach your remote access security, their next target will be your perimeter security, namely your firewall. Many smaller merchants and franchisees who have been compromised had a poorly configured firewall that failed to restrict communication in and out of the cardholder environment to known, trusted sources—or no firewall at all. Cardholder data should be protected not only by a robust firewall, but must also be further secured inside a safe zone within your network, firewalled off from untrusted sources outside the perimeter firewall and secured from all other Internet traffic inside the merchant environment. The ideal scenario would have all aspects of the credit card payment application on a separate network, firewalled off from all other day-to-day business activities.

Once you harden your remote access and segment your payment application from the rest of your business Internet traffic, you still need to protect yourself… from yourself. In a multiple franchise scenario, owners or chief technology officers may be tempted to establish a network configuration that caters to the ease of doing business, such as each locale maintaining direct connectivity to a corporate server and protected by a single firewall or intrusion detection system. If an attacker gains access to one of your merchant sites, such "convenient" network configurations will allow a hacker to migrate the attack to other merchant sites, or to your corporate site. Depending on the number of units in your franchise portfolio, consider giving each site greater network independence, while, for example, maintaining corporate communication through on-demand VPNs (virtual private networks).

If hackers consistently employed the same attack methodology, a single line of defense would defeat them. However, their attacks have become increasingly sophisticated. As credit card payment applications stopped storing unencrypted credit card data, attackers installed keyloggers and memory scrapers that capture cardholder (and magnetic stripe) data the moment it enters the system. In the past, hackers seemed unconcerned about leaving evidence of their thefts on a compromised system. More recently, there is a substantial increase in the likelihood attackers will cover their tracks by securely deleting the malware after a specified period and encrypting the stolen data.

Other essential counter-measures include using a payment application that is compliant with the Payment Application Data Security Standards (PA-DSS); specifically, maintaining robust, up-to-date antivirus applications (preferably more than one), regularly employing security patches and updates, enabling system logging, and reviewing system logs regularly for indications of attempted attacks. In short, full PCI DSS compliance is the most comprehensive course of action a franchisee can take to ensure the security of their customer credit card data.

Today's hackers claim a variety of ethical rationales for why they attempt to compromise computer systems. Many say their actions are ultimately beneficial for the compromised company, as their illicit incursions motivate the victimized company to enhance its IT security. While the morality of hacking is an interesting debate for another venue, there is no debate over the motives of attackers who target customer credit card data. They are out for cash, and they do not care who gets hurt in the process. While the official tally has not been released, government agencies estimate that, in 2010, organized crime worldwide netted more money through Internet-based crimes than from the sales of illegal narcotics—a truly sobering reality, and evidence that this is a fight we will battle well into the future.

David Ellis *is director of forensic investigations for SecurityMetrics, a leading provider of PCI DSS security solutions. Contact him at 801-724-9600 or visit www.securitymetrics.com.*

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BY STEVE LEFEVER

Did Someone Say "Profits"?

Understanding the Financial Operating Cycle

It happens every year, usually in February or March. Business owners across the country meet with their accountants to review the previous year.

The accountant says to the owner: "Congratulations, you made a profit." Of course, with the recession of the last four years, they are saying that less often.

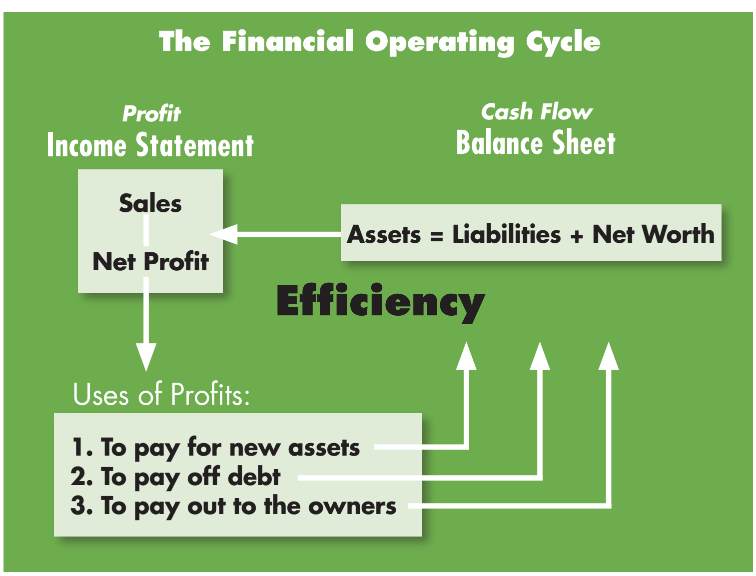
Regardless, what are the two most common responses from owners? You're correct if you said the #2 response is: "If we made a profit… what's the line from Jerry Maguire? 'Show me the money!'" It's the profits versus cash flow issue… we'll discuss that later.

Consistently, the #1 response is: "Make the profits disappear… I don't want to pay any tax!" Of course, the accountant says: "Watch carefully, the fingers never leave the hands! Poof… No more profits, no more tax." Then you can join the ranks of thousands of business owners who call the above scenario "a good year… no tax!"

> As it turns out, you can run, but you can't hide. So you pay some tax.

But wait. Fast forward to my next conversation with that same business owner: "What are the three uses for profits—NPAT (net profits after tax)?" The fact is, a good deal of business owners aren't really sure.

To answer this question, we need a picture. It's called the Financial Operating Cycle, and it's the best way I know to get a handle on exactly how money flows through a business and why businesses need profits. Your business, my business, any business.



The diagram clearly depicts the Financial Operating Cycle. A trip through this cycle will unlock many insights into how money flows through individual businesses—and what's going on in our economy today.

So here goes, starting in the upper right of the diagram: the owners (net worth) and the creditors (liabilities) put up the money to buy assets. Why does the business buy or acquire assets? Unless you collect them, businesses acquire assets to create sales—and they make sales to produce profits. In that part of the cycle, they work very diligently to make a profit. Then, at tax time, owners tell their accountants to make the profits "go away" or to "hide them."

As it turns out, you can run, but you can't hide. So you pay some tax. At that point, you are left with NPAT. This is where it gets interesting.

Three uses for NPAT

As you can see in the diagram (but a lot of business owners are not aware of this), there are three uses for NPAT: 1) to reinvest, or "buy assets," 2) to repay debt, and 3) to "take them home."

Owners often ask me: "How much profit do I need?" The answer is really pretty simple. Think about it.

As you know, our "word" for the entire Profit Mastery process is "measure": What gets measured, gets managed. So, can we measure 1) how much we plan to reinvest, 2) how much debt service we have, and 3) how much we plan to "take home"? Of course. So, by adding up all three uses, we can accurately pinpoint how much NPAT we will need.

Profits matter

If the company does not generate enough profit to satisfy "all three masters," which one will "bite it"?

The answer depends on your personal priorities. So humor me and take this little test. Spend a couple of minutes, and rank order the three uses of NPAT for you… today… right now… in your world. Whichever is your highest priority, put that at number one; then two, then three.

Now take a look at what you just wrote down as NPAT priority three. If you don't generate adequate NPAT to cover all three uses, whatever you listed as "number three" will be the one that doesn't get covered.

Period. What's the message? Profits matter to you, to your banker, and to the growth and survival of your company. MUF

Steve LeFever *is the chairman of Business Resource Services (BRS). 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 him at 800-488-3520 x14 or lefever@brs-seattle.com.*

Investment Insights

BY CAROL CLARK

Structurally Sound

A timeless approach for the 21st century

As I wrote last issue, "the factors that must be accounted for while structuring financial affairs are much more complicated than ever before."

Given that 400- to 500-point swings in the Dow have nearly become the norm rather than the exception, this is ringing even truer today than it did a quarter or two ago. In the previous issue, I outlined the structural and emotional changes that we suspect have primed the markets for their current volatile behavior. I also promised to bring a few ideas for how to keep your wits about you amidst the chaos, so here goes:

1) Give lots of thought and analysis to strategic asset allocation. Many studies show that the preponderance of investment return comes from asset classes you are in for the long pull. It makes sense. If you were in CDs for the past 30 years, your returns were different than if you were in a private business, real estate, or the stock market. Have a solid grasp of what you want and need your funds to do for you. Money you are investing for retirement in 20 years should be in different vehicles than money you need for your child's tuition in the fall of 2012. End uses should dictate what types of investment buckets you can and should consider. But (and this is big)…

Paying attention to some of the basics from those "good old days" just might be the ticket to preserving your sanity and your financial wherewithal.

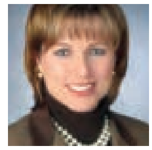
2) Pay attention to tactical asset allocation. Blindly assuming which buckets should be targeted and then slapping on percentage ranges with no eye toward the valuation of a specific asset class can do as much harm as help in the long run. For some perspective, think tech stocks in 1999 or financial stocks in 2007. These are the shifts that can probably provide the biggest boost or detriment to your overall progress. Often this entails adopting a contrarian stance. Stocks aren't always the riskiest asset class (think valuations in March 2009 or at the bottom in 1987). Nor are bonds always the safest (think the negative yields of late 2008 or the volatility witnessed recently in even a five-year Treasury note).

3) Look for a well-reasoned, soundly developed process that will stand the test of time and market/economic cycles. This goes for analyzing individual companies as well as potential mutual funds or money managers. Buying investments is not like buying lottery tickets, for example, and CNBC should not be driving your decision-making process. In fact, CNBC can often be viewed as the infomercial of the investment world. The market's day-to-day gyrations are often more reflective of emotions run wild than they are a testament to fundamentals.

4) The starting valuation is a critical variable. This ties closely to having a firm grip on the intrinsic value of the asset or manager you're contemplating for selection. It often entails analysis of cash flow, compensation structure, fees, and incentives. Do CEOs and senior managers have substantial stakes in the company they are overseeing? Does a portfolio manager have their net worth in the fund(s) they run? It's vital to consider if the price you are paying leaves room for things to go wrong, a "margin for error."

It's also important to understand and adjust for factors such as illiquidity and high performance fees. Wall Street has gotten very creative about generating "product" and taking a piece of the action on both sides of a transaction. Keep the analysis as simple and basic as you can. Where are the fees? Where are the cash flows? Where are the incentives and the motivation? Just because it's the latest and greatest synthetic vehicle doesn't mean it's being crafted to serve your risk management or return needs.

Our day-to-day world is rife with a wider range of potential events than perhaps at any time in investing history. Compounding this situation are a bigger selection of vehicles to participate in and an expanded "sandbox" in which to find them (i.e., global versus local investing). The temptation to shut down and do nothing, or to manically chase what everyone else is doing, can feel overwhelming. However, paying attention to some of the basics from those "good old days" just might be the ticket to preserving your sanity and your financial wherewithal.



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BY JACK MACKEY

Data Delivers!

Rockets, dogs, mommas, and gorillas in the mix

What changed last month in sales, costs, market share, and customer satisfaction? Data answers those questions for you. Data gives you history. But there is a higher level of business intelligence that answers questions such as: *Why is this happening?* or *What will happen next?*

Insight—and foresight—spring from using data, statistical analysis, and predictive modeling to understand why things are happening and what will happen if current trends continue. Let me share three powerful discoveries made by different franchise concepts that improved their future.

#1: Ain't no one happy if Momma ain't!

Franchisees who operated portrait studios wanted to know which customer segment was the most profitable and most likely to be loyal. The franchisor included a number of demographic questions at the end of their customer satisfaction survey to gain information about age, employment, family size, and ethnicity. This information was linked to the transaction amount from the POS system to determine the characteristics of the highest-spending customers.

This high-spending group was further classified according to their ratings on "Overall Satisfaction," "Speed of Service," and "Selection of Products." The segment that was high spending and also highly satisfied was expected to return often and to spend more than other customers.

In this case, Hispanic women with full-time jobs and three or more children were the highest spenders and the biggest fans of the portrait studio… if these moms were happy (highly satisfied). Armed with this business intelligence, the franchisor developed marketing plans to help franchisees attract more of these high-spending, highly loyal customers. That turned out to be exactly the right move, and traffic soared.

#2: Shoot the dogs and ride the rockets

One full-service restaurant concept needed to re-engineer their menu to offer healthy choice alternatives. This meant adding *and* removing items from the menu. By using profitability and customer scores on "Taste of Food" to analyze each menu item, a matrix with four quadrants was created:

- **High profitability with high customer satisfaction:** These menu items are the Rockets. They make the most money and create the most customer preference for the restaurant. Customers love these items, meaning the company gains repeat business and positive word of mouth that will drive future business. Franchisees were guided to promote these heavily!
- **High profitability with low customer satisfaction:** These items are the Projects (for product improvement). Because of their high profitability, it is worth some serious effort to figure out how to improve the taste and customer satisfaction with these items.
- **Low profitability with high customer satisfaction:** These Opportunities have a different kind of potential. Can the price be raised? Or is this item purposely designed to be a loss leader? These items may be building traffic for high-profit bar drinks and also qualify for heavy promotion.
- **Low profitability with low customer satisfaction:** These are the Dogs. Shoot them. Take them off the menu.

The new menu strategy significantly improved sales, profitability, and customer loyalty.

#3: Finding the gorilla in the data

One casual dining franchise had low scores on "Overall Atmosphere." To understand why, analysts selected verbatim customer comments from all surveys with below-average scores in this category. Using text analysis, key words such as "Noise," "Cleanliness," and "Crowded" were identified. Noise was mentioned most often by guests who gave below-average scores on Overall Atmosphere.

The franchise also found that most guests associated noise with the music being too loud. This was an eye-opening discovery because the senior management team had recently instructed managers to turn up the music volume to give the restaurant a more energetic feeling! When the restaurant was crowded, managers turned up the music so it could be heard. But as the crowd thinned and ambient noise was reduced, the remaining guests experienced blaring music that annoyed rather than energized them. The solution: the restaurant installed equipment that sensed the ambient noise in the restaurant and automatically moderated the music volume.

The text analysis revealed that the second-highest correlation was between noise and "Family/Kids Being Too Loud." As it happened, the restaurant had a special Kids Eat Free promotion. They were deliberately building incremental traffic without realizing the very negative impact on their core client base. They quickly cancelled this promotion.

The company's leaders learned the root causes of their Overall Atmosphere problems through text analysis of real customer comments. They were able to make corrective decisions and take effective action quickly—based on facts rather than gut instinct. When big discoveries are made through analysis, it's called finding the gorilla in the data.

These are just three examples. Leading franchise systems drive hundreds of better business decisions by analyzing customer data. Check with your franchisor to see what customer analysis they have. MUF

SMG Vice President **Jack Mackey** *helps multi-unit operators improve customer loyalty and drive growth. To request "Want Better Insights from Text Analytics? Start by Eliciting Better Comments," contact him at 816-448-4556 or jmackey@smg.com.*

People

BY MEL KLEIMAN

Outstanding in the Field!

The 8 steps of an effective hiring system

The best part of my job is being invited to speak to associations and corporations all over the world about the best ways to find, hire, and retain great hourly employees and their managers. I never fail to learn a lot from the folks in attendance, and these occasions are often the start of great long-term working relationships.

About six months ago, I got to chatting with a multi-unit owner attending his company's annual expo and we decided to explore whether we might work together to improve his hiring results. When I did the requisite needs analysis, we found that the areas with less-than-satisfactory results had the same root cause as those of most of my clients over the past 25-plus years: the system was written to meet the needs of HR professionals rather than those of the hiring managers in the field.

Over the next several months, we were able to tweak what was in place to make it easy, practical, and effective for the hiring managers on the ground and still meet the needs and requirements of the HR folks.

The surveys I distribute and collect at many of my presentations help keep me up on the top-trending employer concerns and the shortcomings of the hiring systems in use. Recent data shows 46 percent of attendees cite attitude problems (e.g., unreliability, laziness, and poor work habits) just ahead of theft (43 percent) as the most common causes of employee terminations.

A National Association of Customer Service survey found the number-one reason customers don't come back is "an attitude of indifference on the part of an employee." While only 14 percent didn't return because they were dissatisfied with a product, a whopping 68 percent were put off by an employee's attitude. This is why who you hire to fill those crucial front-line positions makes all the difference.

A National Association of Customer Service survey found the number-one reason customers don't come back is "an attitude of indifference on the part of an employee."

While many hiring managers report being overwhelmed by the huge number of job seekers who apply these days, many are dissatisfied with the quality of those applicants. The third biggest complaint was applicants who lied. Other commonly reported challenges were the time it takes to train someone new, and how difficult it is to check references.

The good news is you don't have to be a corporate giant, increase wages, or spend a lot of money to have a system that works for you. The components of a sound hiring system are the same no matter the industry or size of the organization. Even if you're using a "one-size-fits-all" system that is less than ideal, it can be modified and customized without spending a lot of time or money. Briefly, the eight steps in an effective hiring system are:

1) Job analysis

What really needs to be done, and what is the best way to do it? What mental and physical capacities, attitudes, personality traits, and skills does the jobholder really need to have?

2) Recruiting

Although most employers have eagerly adopted electronic recruiting tools and social media strategies, the three most effective sources of the best new hires are the same as they were 20 years ago: a) every former good employee, b) present employees, and c) new hires.

3) The employment application

Every step in the hiring process should be a test, and each step should get progressively more difficult. Structuring the system this way uses more of the applicant's time and less of yours. The first test is the employment application. Applicants who do not follow all instructions on the application are telling you they cannot or don't like to follow instructions (as well as that they are not a good fit for your team).

4) Phone screening

Before you spend any in-person time with applicants, a short pre-screen by telephone will ensure they meet your basic, minimum requirements (documentation, reliable transportation, willingness and ability to work days and shifts needed, wages, etc.).

5) Testing

You've probably learned the hard way: applicants don't always tell the truth. Testing is the only way to ensure you get what you need. You can buy or design your own tests for everything important to the job (e.g., IQ, strength/stamina, attitudes, personality traits, and skills).

6) Interviewing

This is still the heart and soul of the employment process. The biggest mistake employers make here is not developing a structured interview question set that asks all the most important questions of every applicant.

7) Employment references, drug screens, driving record, and credit checks

You and your employer will be held responsible for the acts of your employees. All offers of employment must be contingent on the outcome of these verifications.

You've probably learned the hard way: applicants don't always tell the truth. Testing is the only way to ensure you get what you need.

8) On-boarding and employee retention

After all the time and money invested in Steps 1 through 7, it is imperative that a great relationship is established between all new employees, their managers, and the company.

Twenty years ago, The Gallup Organization created a feedback system to identify and measure the elements of worker engagement most tied to bottom-line results (things like sales growth, productivity, and customer loyalty). Results from the survey consistently show a strong correlation between high levels of employee engagement and superior organizational results.

When you build a hiring system that works for the operations folks in the field as well as for HR, you will attract more applicants of a higher quality and be able to select the very best of those. And when you back up your hiring system with an on-boarding and retention program, you'll have a superior team of highly engaged and motivated workers certain to deliver superior organizational results. MUF

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BY DEAN ZUCCARELLO

Project Financing

Should the fix be in?

Interest rates right now are low—very low. They've been low for a while. And they're expected to remain low for the foreseeable future. So, when you go to your bank and they have only a floating-rate loan to offer you, no problem, right? Maybe… but you better make sure you've considered all the angles before you pass up the opportunity to convert that loan to a fixed rate.

Entrepreneurs securing new project financing are well aware that banks today typically offer only floating-rate products. Although some lenders may not offer fixed-rate loans themselves, they typically will facilitate converting the loan to a synthetic fixed rate by helping borrowers purchase an interest rate hedge known as a swap. A third party will make the floating-rate payments on the loan, and agree to accept payments at some fixed rate from the borrower. A swap boils down to a transfer of interest rate risk from you, the borrower, to your swap counterparty. You can think of it as insurance—you get rid of interest rate risk by paying an up-front fee and somewhat higher initial rates. They win if interest rates stay low; you win if rates rise.

So when closing a new loan, should you a) buy the insurance and take the fixed rate, b) roll the dice with the bank's floating-rate product, or c) buy a swap for only part of your debt and go with a blend of fixed- and floating-rate debt? Of course, nobody knows what will happen with interest rates in the future, but what you can do is be aware of the current lending environment, stay informed on the interest rate outlook, and understand the potential risks and rewards of each strategy.

In our opinion, with interest rates so low, there is nowhere for them to go but up. The only question is when.

The current environment

Why are most lenders offering only floating-rate financing? The simple answer is that they're not willing to make long-term loans that are fixed at today's low interest rates. Floating-rate products charge interest at a set spread over an index—and whether that index rate is Libor, prime, Treasury, or another index, rates are all at or near record lows. Libor rates have been under 1.00 percent for several years, prime is at 3.25 percent, and the 10-year Treasury recently dipped to just 2.14 percent in the week of August 8—and that's after the S&P rating downgrade!

While borrowers should rightly be glad of these record-low rates, the downside is that banks are placing unusually large spreads on their floating-rate products. Whereas a few years ago they could charge 3 percent over 3-month Libor and still earn a decent return, today that would be generating only a 3.28 percent total interest rate—a number at which banks just can't make money. As a result, spreads have grown artificially high to make up for the low index rates. Our opinion at Cypress is that spreads will possibly come down once base-level interest rates rise back into normal ranges.

Interest rate outlook

In our opinion, with interest rates so low, there is nowhere for them to go but up. The only question is when. Current low rates on a long-term investment such as 10-year Treasurys are one indicator that the market expects rates will stay low for an extended period. Big financial firms and hedge funds bet money every day on what future rates will look like. Taking a peek at a composite of their bets—known as the forward curve—also says the "smart" money expects rates to stay unusually low for the next several years. There are plenty of reasons to support that belief. The slow recovery (or lack thereof), the Fed's easy monetary policy, and low inflation all lead us to believe that interest rates will stay low until the economic environment changes significantly. That said, the fundamentals of today's economy and the increased risk for extraordinary political and economic events are incubating inflationary pressures that we believe are likely to push interest rates up over the long term, perhaps quite high.

Risks

Don't let the last decade of relatively low rates lull you into a false sense of security. Those 10-year Treasurys that are hovering around 2 percent today were above 15 percent in the early '80s and above 9 percent in the early '90s. Imagine adding 7 or 13 percent to your floating-rate debt if the rates of 1991 or 1982 return in 2015. While that might be unlikely, it is wise to consider what your exposure to rising interest rates could be, and how badly it might hurt.

Let's imagine a franchisee with $1.375 million EBITDA, $1 million in rent, and a $5.5 million loan. That's a 4-to-1 debt/EBITDA ratio, and at an effective interest rate of 5 percent on that 10-year loan, our franchisee is sitting at a reasonable 1.39x fixed-charge coverage ratio. But if rates rise to 10 percent, that coverage ratio drops to 1.25x, and at 12 percent to 1.20x. Now he could quite possibly be in violation of his loan covenants, and a hiccup in EBITDA (or further increase in interest rates) could threaten his ability to pay his bills.

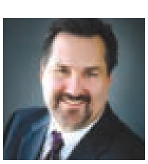
While you may not be able to guess what interest rates will be five years from now, you should understand the particular impacts of potential rate increases on your business. If you have very low debt levels relative to EBITDA, perhaps you can absorb a big hike in interest expense. It still won't feel good but it won't put you under. On the other hand, if you are pushing the limits of your borrowing capacity, you probably can't afford much more interest than you're already paying. It didn't work out too well for all those homeowners with variable-rate mortgages; don't make the same mistake they did. One more thing to consider. For amortizing loans, the loan balance is shrinking with every payment, so future interest rates will be charged on a smaller principal balance.

Just as letting your rate float has risks, purchasing a swap comes with its own potential pitfalls (aside from the initial higher interest rate, which is still attractive by historical measures). Most significantly, swaps can carry large breakage fees if rates drop. In the past, this has locked many borrowers into above-market fixed rates, as the breakage fee is so high as to prevent them from cost-effective refinancing. However, the risk of a large drop in rates is currently much less than normal. The second consideration is the term available on swaps. In today's market, the maximum term you're likely to find is 5 years—meaning that on a 10-year loan, you'll find your interest rates resetting halfway through your loan.

Form your own opinion on what interest rates are likely to do—but don't try to outthink the big money on Wall Street.

Making a decision

Buying a swap is the easiest way to protect yourself from interest rate risk. Form your own opinion on what interest rates are likely to do over the next several years—but don't try to outthink the big money on Wall Street or try to predict the macro economy. Understand the risks you face if rates do rise dramatically in the next few years. Once you do, you'll be in a better position to decide whether that up-front cost and higher-today interest rates are worth the tradeoff of knowing your loan payments won't change before maturity. For some, that security is more than worth the price. MUF



Dean Zuccarello, *CEO and founder of The Cypress Group, has more than 30 years of financial and transactional experience in mergers, acquisitions, divestitures, strategic planning, and financing in the restaurant industry. The Cypress Group is a privately owned investment bank and advisory services firm focused exclusively on the multi-unit and franchise business for more than 22 years. Contact him at 303-680-4141 or dzuccarello@cypressgroup.biz.*

Ad Index

BY DARRELL JOHNSON

Improve Your Financing Chances

Adapting to bankers' evolving loan policies

Lenders establish frameworks for various types of lending: housing, personal, small business, and more. Those frameworks are called lending policies and define the rules and procedures for conducting a lending program. They form the basis a credit committee uses to make loan structuring, pricing, and individual loan application decisions, and that a credit risk committee uses to make portfolio allocation decisions (how much of the bank's assets should be allocated to small business, to franchised small businesses, and to particular franchise systems).

The competition for credit cycle small business are facing is pushing lenders toward consideration of tighter (and in some cases different) lending policies. This tightening generally is around the five C's of credit—character, capital, capacity, conditions, and collateral—leading to requirements such as higher credit scores, more equity contributions and cash reserves, and so forth. However, we're also seeing some different lending policies evolving for franchising, which are emanating from a basic understanding of franchise credit risk: There is a strong correlation between 1) the likelihood that any franchise loan will be repaid as expected, and 2) the credit risk history of the associated franchise system.

Historically, lenders tried to use the FDD for such purposes. The down economy exposed the many shortcomings of a document designed for entirely different purposes; it simply doesn't address credit risks. The other rudimentary holdover risk tool from the easy credit years is the frequent use of SBA franchise statistics, which most banks know are not very accurate.

There is a rapidly evolving solution. We are seeing the development of franchise system measures that more accurately reflect credit risk, and which are beginning to be used effectively to improve lender credit decisions: more detailed unit performance data than in an Item 19; franchise system performance metrics associated with credit risk; and franchisor performance attributes evaluated in banking terms.

Based on all the franchise credit risk work we do and the feedback we get from lenders, here's what I believe a typical bank credit policy on franchise loans will look like:

1) Small-business policy for franchise lending: system performance correlates with loan success. The performance history of a franchise system provides a) a good basis for predicting lending outcomes of lending, and b) guidance in structuring a loan. In addition, the following should be considered.

2) Franchise unit performance: system data on unit economics drives loan structuring. Good unit performance data provides the foundation for a loan structure appropriate for the borrower. Average revenue growth by month and the statistical dispersion of that performance across units opened in recent years is a necessary first step. Actual performance data to support a borrower's projections is extremely helpful. For instance, the time to positive cash flow and the dispersion around the mean for recent units will provide guidance in structuring loan terms to allow for adequate working capital.

3) Franchise system performance: unit continuity outcomes determine risk and pricing. SBA performance data should be reviewed and its accuracy assessed, but reliance on such data should be carefully considered. A much better measure of credit risk is a good understanding of a franchise system's unit continuity outcomes over time. Categorization of the reasons units are no longer in the same locations will allow the underwriter to focus attention on potential weaknesses in prospective franchisee qualification, training, and support (including special support for underperforming units and the franchisor relationship with banks for such borrowers). This also will assist in determining loan portfolio concentration risks.

4) Franchisor performance: long-term financial stability and management experience matter. Most small business loans have terms exceeding five years. The underwriter should consider the long-term financial stability of the franchisor as important in understanding the management team's ability to manage the brand over a long time horizon. Management's knowledge and experience in both their industry and in the business of executing the franchise model should be evaluated.

5) Verification: independent third-party analysis enhances internal and bank regulatory reviews. For both validation and financial regulatory review purposes, whenever possible third-party verification should be included in the loan package, along with the franchisor's audited financial statements and any appraisals (such as real estate) required under other small-business lending policies. If third-party verification is not available or cannot be produced in time for a loan decision, industry analysis, FDD and peer group analysis, and relevant SBA franchise statistics accuracy assessment should be included.

The astute reader will recognize that I have described the Bank Credit Report using lender credit policy terminology. Now you know why it was created and why it is being used actively by lenders. Franchise systems now have a way to communicate credit risks to lenders in banking terms that conform to the policies lenders are developing for such purposes—one big step in winning the competition for credit. MUF

Darrell Johnson *is CEO of FRANdata, an independent research company supplying information and analysis for the franchising sector since 1989. He can be reached at 703-740-4700 or djohnson@frandata.com.*

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