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Multi-Unit Franchisee

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ISSUE I 2012

Mega 99

Dawn Lafreeda operates 70 Denny's in 6 states

■ **HIRING RIGHT**
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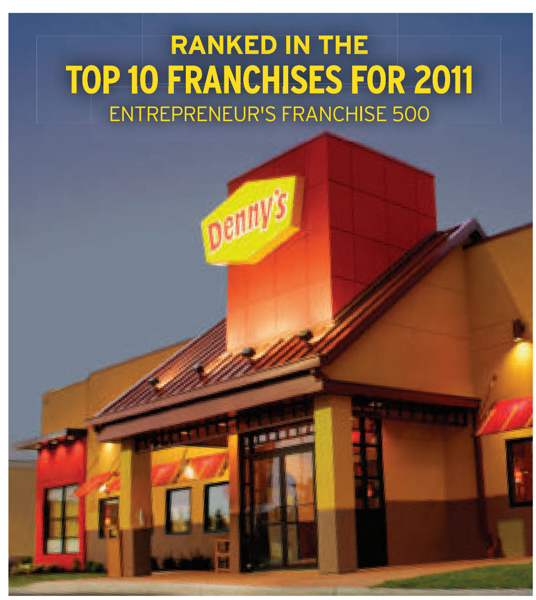

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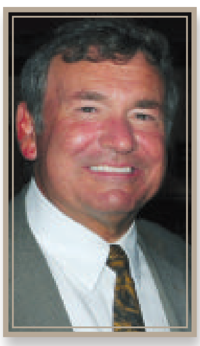



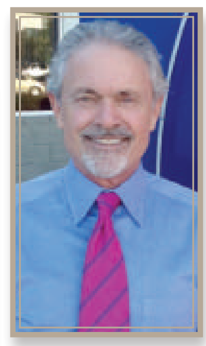
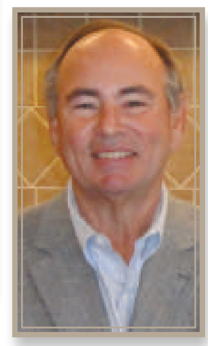

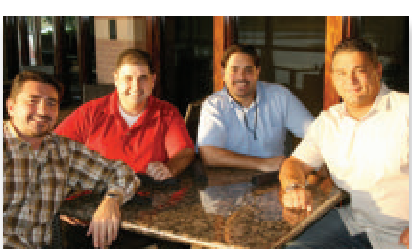

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Chairman's Note

BY JOHN METZ

Eyes On Empire

John Metz is the incoming Chair of Franchise Update Media Group's ***11th Annual Multi-Unit Franchising Conference,*** *April 24–26, 2012 at The Mirage Las Vegas. This is the only national conference focused exclusively on multi-unit franchisees. The theme this year is "Empire Builders."*

Creating an empire is no small task; it wasn't for the Romans centuries ago, and it's not for multi-unit franchisees today. But it can be done. Conjure a lot of hard work, elbow grease, and knowledge gained from experience—and maybe a pinch of luck—pour it all into a strong and thriving franchise brand, and you're on your way. Stories abound of franchisees who started small and went on to make it big. Most of them have a few things in common.

Key components of any successful business organization include quality people, partners, tools, and intelligence. All of these resources, and more, are available each year for participants in the Multi-Unit Franchising Conference. I began attending these conferences in 2004, and I keep coming back every year. The content and the people make this one of the best events in franchising.

As a franchisee of Denny's, Dairy Queen, and Marriott Hotels, information is important to me. At the Multi-Unit Franchising Conference, attendees not only learn how to successfully lead a business of this kind, we also are granted the opportunity to share experiences with strong players in the field. I have met people and been exposed to ideas that have both encouraged and challenged me. This conference is not only about multi-unit concepts, but more about multi-unit, multi-brand franchisees—adding another layer of knowledge and understanding to the equation.

If information is critical to you and your operation, this conference is a basic business essential. Whether you have three or 300 units there is something here for you: quality speakers and panelists, timely and topical subject matters, extremely interesting keynote speakers, a great array of vendors and suppliers, and the opportunity to network with the top players in multi-unit franchising.

In organizing this event each year, the Franchise Update team works in tandem with the seasoned multi-unit franchisees on the Conference Advisory Board. Let me tell you, I make the rounds attending numerous franchise events throughout the year, and none has achieved a reputation for quality like the Multi-Unit Franchising Conference.

As incoming chair, I know I have some big shoes to fill. Charles Smithgall did a fantastic job last year. Before him were franchise stalwarts including Stan Novack, Bill Hall, and Gary Grace, among others. But I know the Franchise Update team and Advisory Board will create an outstanding event I will be proud to be a part of.

If you have your eyes set on building your own empire, through growth, financing, or adding brands, don't miss this conference! There's plenty to benefit you. See you in Vegas!

John Metz
Chair
2012 Multi-Unit Franchising Conference

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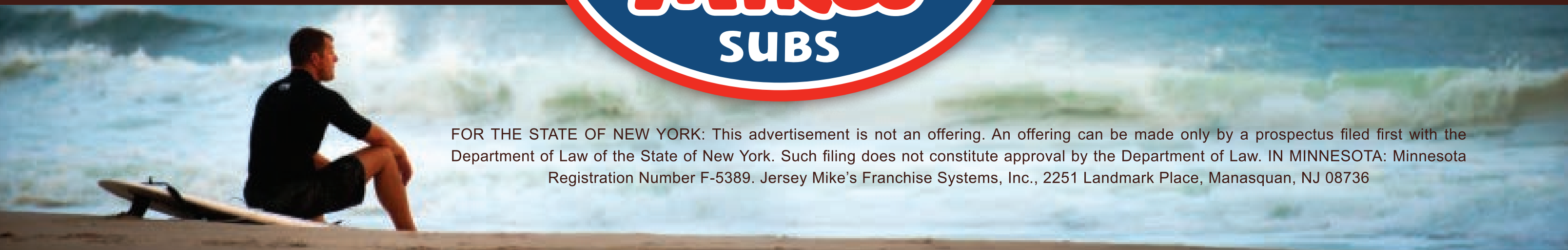

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Conferences

10th Annual Multi-Unit Franchising Conference

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

Online

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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/**.

Female Perspective

Despite all the talk about the proverbial glass ceiling for women in business, Dawn Lafreeda has nothing but praise for Denny's corporate. "I've never felt discriminated against from the Denny's side. They've given me many opportunities. They're an iconic brand with a great product, and that's why I feel so much loyalty to them," she says. "Since I was 13, Denny's has been in my life. They've treated me well and put a roof over my head for most of my life."

— Dawn Lafreeda, President & CEO of Den-Tex Central, operator of 70 Denny's in 6 states.

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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MEGA 99

Mega Bucks

Six movers and shakers tell their tales

We are always on the lookout for big franchisees, the kind who don't run a half dozen units but dozens of units. They're powerful, dominant, and know how to be leaders in their business and communities. That's why again this year we have teamed up with FRANdata to create and publish our annual Mega 99 rankings.

We realize numbers alone don't tell the whole story, but they do provide a great starting point. The multi-unit franchisees on this list have worked hard, witnessed highs and lows firsthand, and poured themselves into creating empires known for their sheer numbers. Beyond the numbers are the stories of real human beings. It takes a unique individual to reach this level of franchising, one who can overcome obstacles, struggles, and failures, and yet rise from the ashes.

Business is so much more than revenues and profitability, which is why we asked these six multi-unit operators to tell us more about themselves. Beyond their impressive accomplishments, we asked about their fears and failures, biggest mistakes, management philosophy, and their goals for the next 5 and 10 years. We asked them about their favorite tech toys, how they balance work and family, and what they're doing differently to ride out the economic turmoil and prepare for better days.

These individuals also provided their insights on the state of franchising, financing, marketing, and maintaining customer service even as they seek to reduce expenses. But it's also inspiring—and just plain fun—to hear from people who get up in the morning loving their work.

Talk about "mega" franchisees… **Sam Covelli** has 198 Panera Bread stores with 20 more under construction. But wait, there's more! He also operates 5 O'Charley's and has an agreement to build 50. His Covelli Enterprises has 20,000 employees and did more than $400 million in revenue in 2011.

Then there's **Dawn Lafreeda.** She operates 70 Denny's locations in 6 states (Texas, Missouri, Kansas, Illinois, Arkansas, and Oklahoma). Growing up, the California native told herself that she was going to be self-employed one day. Is she ever. Her operation generates $85 million per year and she's looking to grow.

Roger Mongeon spent 10 years as a chemical engineer at Union Carbide in his native Canada before chasing his entrepreneurial bent. He discovered his next-door neighbor was running a Weed Man franchise from home. Today, Mongeon operates 47 Weed Man units in Canada and is the U.S. franchisor for Weed Man, with 257 units in 35 states.

Diversity is the key strategy for **Ray Harrigill.** His Sunray Companies has restaurants (Bumpers Drive-In), tanning salons (Palm Beach Tan), fitness centers (Koko FitClub), and hotel properties (Hampton Inn). He's banking on membership-based businesses because they offer a more predictable level of cash flow than retail or restaurants can.

Next up, we've begun a new feature where we "reconnect" with franchisees we've profiled in years past, to catch up on what's been going on since last we spoke. In **Tom Barnett**'s case, he's been battered by the economy since we profiled him in 2008, but he says he's determined to make it through. Now at 21 Burger Kings, 19 The Good Egg restaurants, and 6 Blue Burrito Grilles, he says, "I've been taught to never, ever give up. If you give up, you've lost."

Tommy Haddock has added 10 Bojangles' Famous Chicken 'n Biscuits restaurants since we profiled him six years ago. That brings him to 46 units in North Carolina and Virginia, where he says one of his secrets has been to stay plugged into the local communities.

No matter where they came from, or how they got into franchising, there's a fascinating real-life story behind every successful franchise operator. Whether you're a single-unit operator or have dozens of units across several brands, you're sure to find something interesting, educational, even entertaining in the stories of these six multi-unit operators. Maybe even a nugget or two to apply to your business or your personal life.

Time to grow!

BY TRACY STATON

Growing Up Franchising

Sam Covelli develops both his brands and employees

Sam Covelli says he grew up in the restaurant business working in his father's McDonald's. Under his father's leadership, Covelli Enterprises eventually grew to 26 locations, one of the largest McDonald's franchisees in the country. But after the senior Covelli handed over the company reins to his son, you could say that Covelli Enterprises grew up with Sam Covelli.

Under his leadership, the company's McDonald's holdings grew to 43 restaurants, keeping Covelli Enterprises among McDonald's top franchisees, and an award-winning one at that. Covelli sold off those restaurants and shifted the fam-

NAME: Sam Covelli

TITLE: Owner/Operator

COMPANY: Covelli Enterprises

NO. OF UNITS: 198 Panera Bread and 20 under construction; 5 O'Charley's, with an agreement to build 50.

AGE: 58

FAMILY: Wife, Caryn, and three children: Candace, 24; Albert, 22; and Danielle, 17.

YEARS IN FRANCHISING: I grew up in the business, since I was a little kid. Technically, I've been in restaurants for 35 years.

YEARS IN CURRENT POSITION: 14½, 30 with Covelli Enterprises.

ily business into Panera Bread—and how.

Today, Covelli Enterprises owns 198 Panera Bread locations, with 20 under construction, making it Panera's single largest franchisee and the fifth-largest restaurant franchisee in the country. Talk about a "mega franchisee": Covelli Enterprises has 20,000 employees, is looking at more than $400 million in revenue for 2011, and has won multiple awards for restaurant operations and community service. As if that's not enough, the company has an agreement to develop 50 O'Charley's restaurants.

Keeping the operations on track—and driving further growth—puts Covelli on the road every week. He enjoys visiting his company's many stores more than he'd like to play golf—and he used to be a pretty good golfer. "Honestly, I never truly feel like I go to work," he says. "I get out of bed and can't wait to get in my car to go to some of my restaurants."

One thing Covelli enjoys about visiting the stores is seeing employees grow with the company. He likes giving workers the chance to build a career by working their way up. "We have someone who was an assistant manager 15 years ago, and now he's head of operations for two of our markets," says Covelli. "I love to see people growing like that from within."

PERSONAL

Key accomplishments: Started with my father in McDonald's.

Biggest mistake: You learn a lot from mistakes. Not everything is going to work 100 percent. You learn from things you might do, from things you might not have done. You hope you have more winners than failures. Sometimes I've wanted to purchase a market, and, when I got into it, wished I'd purchased it five years earlier. Fortunately it worked out: I bought that market, and it worked out well.

Smartest mistake: It's kind of trial and error more than mistakes. With a couple of sites, I've taken chances. I worried about them, and then they turned out to be some of our best sites. Usually we get a pretty good feel what a store will do when we open. With a couple, I wasn't sure. I thought they could be below-average stores. I was nervous about that. Then they turned out to be great.

How do you spend a typical day? I do a lot of traveling. I've always enjoyed opening stores, going around to all our stores, and getting to know our customers. On the road, I'm up at 5 or 5:30 working out, then out in the stores. I try to be in the office when I have to be.

Work week: Certain days I have to be in the office to sign papers. Every Monday we have meetings. The main thing is to try to get everybody thinking in the same way. And I like to hear ideas from people. In our company, we share ideas, we talk about them, and then we enforce them. I want everybody to agree. They buy into the program and they'll follow up on things.

Favorite fun activities: Watching football. I'm an Ohio State fan. We just opened the biggest Panera in the U.S. right across the street from the stadium.

Exercise/workout: I do a lot of miles, and I also do a lot of weights. At my house, I have some neat weight machines. I use an elliptical, a treadmill. I do a little of everything on the road, use whatever the hotel has.

Favorite tech toys: My iPad and new iPhone. I love the iPad. I use it to look at the numbers on all our stores, our labor projections, the whole picture of the business every day. I even have cameras on the iPad to look at stores.

What are you reading? I love reading about successful people. I like reading about things politicians have done. I'm always interested in reading different marketing books. Then daily, all the different papers, *Wall Street Journal, USA Today.*

Do you have a favorite quote/advice? One thing I've always believed and always say is this: I never take a customer for granted. I'll treat every customer like it's my last customer. No matter what they order, whether it's just a drink or a $100 order, we can't do enough for a customer. That's always been our philosophy. With employees I'll also say, "Don't tell me what you can't do, tell me what you can do." I like to look at the positive side of things. There are never any shortcuts if you want to be successful.

Best advice you ever got: One big thing my father always preached to me, and we preach now, is giving back to the community. If we don't give back to the community who will? We think it's part of our responsibility. We probably raise more money for charity than most companies do, but that's the way we are.

Formative influences/events: Our growth always amazes me. Years ago we got an award for best operations in McDonald's. It was impressive for our people, more than just for me. We've been honored with many awards now, and I like for our people to be there, because it's such an exciting feeling for our whole organization.

How do you balance life and work? It's about balancing your time. Your family comes first, and business comes second. Because I do a lot of traveling, I have to manage my calendar. I'm still there for all my daughter's volleyball games. I used to coach Little League. I'm always there for any event they have.

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The company's phenomenal growth has also enabled Covelli to follow some of his father's advice—advice he considers to be among the best he's ever received. "One big thing my father always preached to me constantly was community," he says. "We believe in giving back. It's the right thing to do."

Involvement in local communities is the backbone of his business, Covelli says, and the company donates to dozens of organizations, including partnering with food banks and other agencies to get unsold bread and bakery products to people who need them. Last year, the Day-End Dough-Nation program donated more than $10 million in unsold goods to community organizations.

Involvement in local communities is the backbone of his business, Covelli says, and the company donates to dozens of organizations.

MANAGEMENT

Business philosophy: Our growth has been tremendous. The good thing about our business growing like it is, is that everyone grows with it. As I go around to stores, it's nice to see that someone who was an assistant manager is now a head manager. Within our office, I get to see growth in people, see people moving up.

Are you in the franchising, real estate, or customer service business? I'm in the people business. All day long I deal with people. And that's the most important thing, because good people make my business. Good associates and good customers—they go together. We have the greatest product in the world, but to keep the product right we need great people, and those great people keep great customers coming in.

As an operator, what are the two most important things you rely on from your franchisor? Sharing ideas and learning from each other. When you work together, it's a terrific relationship, dealing with a franchisor. Panera is terrific as a company. We've really worked closely together.

What gets you out of bed in the morning? I can't wait to see what we did the day before. I look at my calendar to see what I have that day, and I go at it.

What's your passion in business? Having a restaurant that people love coming to. Each and every day I want to find an idea that might make a customer even happier. We're testing new things constantly. Would customers like this more? Is this better packaging than we had before? Things like that. That's what makes me passionate, and it keeps business growing. I also love big volumes, love big increases. That's what we've had over the years.

Management method or style: I believe in high standards. I'm a great person to work for if you have the standards we all agree to in our company. I get upset when someone doesn't want to follow the program and give 100 percent. There's not one thing I'd ask a person to do that I haven't done and won't do. Once a reporter came to a store and saw me mopping the floors and cleaning the restroom. That's just the way we are, and the people who work for me know that. I want to be fair with them and want them to be fair with me.

Greatest challenge: In any business, it's coming up with new ideas. Marketing ideas, operational ideas. The key is constantly growing with great people and having great people grow with the company. You always want great people working in your company. We work on that every day, because you can't let up on it.

How close are you to operations? Very close. That's why when I go into stores, we can discuss what's going on, talk about particular products, how hard they are to make, whether there's something we should have, whether there's something they wish we didn't. Some of my associates come up with the best ideas. I don't look at an associate as an associate, we work together. That's why we have a lot of fun.

Have you changed your marketing strategy in response to the economy? Fortunately, the economy hasn't affected us. Panera as a company has had a couple of the biggest years they've ever had. I think people are fussier about where they spend their dollars. If we do a good job, we'll do better in these times. Fortunately, we have. We've been doing terrific, knock on wood. I hope it stays that way.

How is social media affecting your business operations? We are starting to work more with social media. We're going to have online ordering soon, and we've been advertising, using digital marketing. We haven't used Facebook, but as time goes on I think we'll do more and more of that.

How do others describe you? I like to think they'd say I'm honest with them. Up front. Everyone will tell you I'm up front with everyone. I think they'd say I'm demanding, I have high standards, and I'm fair.

How do you hire and fire? We have a very great retention rate, higher than the industry. We don't have much turnover. As long as you hire smart, you shouldn't have trouble. The last thing you want to do is fire people. People kind of fire themselves. You want exciting people. You want people who are a good match for your community demographics. We want everyone to have an opportunity to work for us. So you look for a good mixture of the demographics in the area, and hire the best, the most exciting, and the most friendly people.

How do you train and retain? That's one of the most important things. We use computers to teach about business at the store. We want everyone to know our product before they start working. Then we put them one-on-one with a trainer in each store. We make sure they know the business inside and out before we leave them alone. We want them to succeed, not fail. We don't want them to feel confused at the end of their first day. It's important for people to go home and say they love working here.

How do you deal with problem employees? We have a program. We sit them down and give them a warning. We give them three or four opportunities, as many as we can. But if someone doesn't show up three days in a row, what can we do? We didn't fire them, they released themselves.

BOTTOM LINE

Annual revenue: Roughly, over $400 million. That's growing quite a bit each year now. We're the largest Panera franchisee, and the fifth-largest restaurant franchisee in the country.

2012 goals: We're going to be developing Canada. That's going to be very interesting. People are training for it already. We'll open our first store in Toronto March 1, and we have seven more lined up. The second will come probably two or three weeks after, and then we're ready to take off. Also, I can't say right now, but there are a couple of other markets we'd like to purchase for growth. In the meantime, we'll be opening close to 30 stores in the next year, just in our own markets.

Growth meter: How do you measure your growth? We look at total sales and increases. We don't want to open a store that hurts another down the street. We like to keep average volume up higher each year. It's ridiculous to open a store for the sake of it. We want positive growth, big volume, and that's when we're opening stores the right way.

Vision meter: Where do you want to be in 5 years? 10 years? Number one, I want to be alive. I want to continue to grow like we are. Hopefully we'll have more markets, and our people have more opportunity to get promoted. I just hope in 10 years I enjoy what I'm doing like I am now.

How has the most recent economic cycle affected you, your employees, your customers? We've kind of been the employer of choice with our associates. People enjoy working with us. They love wearing their Panera hats when they're not at work, and that tells me they feel good about working at Panera. I like to say we're the best of Panera, and Panera's the best of the restaurant business right now. I think that's why we're where we are.

Are you experiencing economic growth/recovery in your market? The Midwest is going through tough times. Fortunately, where our headquarters are, we have a GM plant, and it's doing well. They're trying to do things to get the economy going. Things have been tough, but people are survivors here.

What did you change or do differently in this economy that you plan to continue doing? I think when the economy's like it is, you have to run your business smarter. You can't just sit back. You have to change with customers' demands and needs. You have to be in touch with what's going on. You might have to look at customer spending habits, what they like to spend money on, products you might have to implement. I think a lot of businesses, when the economy got tough, didn't know how to react. They didn't change. We were never that way.

How do you forecast for your business in this economy? Pretty much the same. You realize that customers have less disposable income, so you want to make sure that your customer comes to you. They have other choices. We want to be their number-one choice.

Where do you find capital for expansion? We've been very fortunate because business has been healthy. That hasn't been an issue for us.

Is capital getting easier to access? That's not one of our problems. If we're smart, it won't ever be.

Have you used private equity, local banks, national banks, other institutions? We've used local banks over the years. We've never used private investors, never had any partners. We have used a variety of banks.

What kind of exit strategy do you have in place? A lot of people would like me to have an exit strategy. A lot of investment companies would like to buy our company. I get those offers, and I'm not interested. I'm happy, and I love where we're at. I hope my son and daughter, or both daughters, are all in the business. That's probably my main goal in 10 years. Maybe then I can relax a little bit.

Here's the best way to reward great employees: give them an opportunity to become a manager.

What are you doing to take care of your employees? We offer a variety of benefits. It depends on the position. We have bonuses, incentives, pay raises. The key is that you have to make employees happy in the workplace. You have to make them comfortable. People enjoy working in a business that has good structure. They like to know what's going to happen. They don't want surprises. We make sure we give them enough staffing so they have enough help all the time. We don't want them to feel exhausted at the end of the day because there aren't enough people in the store. That's a big part of it. We keep our computers up to date with the latest and greatest, keep the restaurants clean and new. We're always remodeling. Some of our partners only work on construction, all day long. Our associates feel good about working in a nice clean environment.

How are you handling rising employee costs (payroll, healthcare, etc.)? We deal with it like any other business. It's something that's there, and we have to deal with it. There are some things we do for our employees. For instance, in the office, we have weight rooms and nutritionists to give talks if they want.

How do you reward/recognize top-performing employees? We have awards and bonuses. I'm going to bring most of our head managers to a convention to reward them. But here's the best way to reward great employees, the greatest way in the world: give them an opportunity to become a manager. So many people work in our restaurants through college and then come work with us permanently. It's one of the neatest things. We have people who never went to college and worked their way up. They grew with the company.

BY DEBBIE SELINSKY

Denny's Queen

Dawn Lafreeda, with 70 units in 6 states, is a brand champion

"Sometimes interesting things happen in a bad economy," says Dawn Lafreeda, CEO and president of Den-Tex Central Inc. in San Antonio. While the economy continued to hammer the restaurant industry, Lafreeda opened 10 Denny's restaurants in 2010 and 14 in 2011. That brings her total to a whopping 70 in six states (Texas, Missouri, Kansas, Illinois, Arkansas, and Oklahoma).

"That's a lot of growth," admits Lafreeda, who began her Denny's career as a 16-year-old in Orange County,

NAME: Dawn Lafreeda

TITLE: President, CEO

COMPANY: Den-Tex Central, Inc.

NO. OF UNITS: 70 Denny's restaurants

AGE: 50

FAMILY: I have a wonderful partner I have been with for the last 17 years. We have 7-year-old twin sons.

YEARS IN FRANCHISING: 26

YEARS IN CURRENT POSITION: 26


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Calif., and bought her first restaurant when she was 23. "But we like to do whatever makes sense, and this made sense for us. In 2012, we're going to focus on fine-tuning our operations, getting acclimated to all our new acquisitions. We're not going to be as aggressive as we have the last couple of years." She pauses and laughs. "Every year, I say we're not going to do as many, and I always make a liar of myself."

Lafreeda's ambition was born of a tough childhood, she says. "When I was a kid, I told myself that I was going to be self-employed when I grew up and have a better life and the things I'd never had." When she was 13, her hard-working mom became a manager and then a district manager for Denny's. When Lafreeda was 16, she needed a job to get a car, so she got a job as a hostess at Denny's.

"When I was a kid, I told myself that I was going to be self-employed when I grew up and have a better life and the things I'd never had."

She continued to work nonstop at Denny's, and took on a second job when a company selling accounting software for CPAs and lawyers recruited her. "At that company, I learned a lot about business, payroll, accounting, and computers. That job gave me the skills I needed to run my own company," says Lafreeda.

When she was 23, she and a friend bought a Hobo Joe's and Colony Kitchen restaurant (part of a chain Denny's had taken over) in the small mining town of Globe, Ariz., about 90 miles east of Phoenix. They did well there, and 18

PERSONAL

Key accomplishments: I bought my very first restaurant in 1984 on credit cards and a leap of faith. I turned it into a multi-state, multi-million-dollar enterprise that employs over 2,500 people and has spanned over 25 years—so far.

Biggest mistake: Years ago, I was fearless and hungry for success. I believed I could turn any restaurant around and make it profitable, even when my gut told me "No." I was young and did not fully understand the demographic factor or the economy in other states outside Texas. I used to think more was better, so sometimes I bought restaurants I should have studied and done more due diligence on.

Smartest mistake: The mistakes I made buying restaurants I should have passed on taught me how to survive and deal with tough situations. It led me to further my growth as a means of survival, which ultimately led me to become one of the largest female franchisees.

How do you spend a typical day? When you own a 24-hour, 365-day-a-year business, you are dealing with constant issues day in and day out. Every day is a different adventure and I always have multiple projects going at once—whether it be developing a new site, renegotiating a lease, finding capital, remodeling a restaurant, or staying up to speed on all the things happening in each of the restaurants. It is never the same and it is never boring. When I am in town, I have a lunch meeting every day with my VPs to discuss all the current issues happening in the restaurants and the company.

Work week: It varies greatly, depending on whether travel is involved. Some weeks I am in the field visiting and touring my restaurants to ensure we meet all of Denny's standards and guest expectations. I sit on the Denny's Franchise Association Board, and I spend a fair amount of time traveling and meeting on behalf of the franchise community to ensure we communicate to Denny's with a united voice the issues that surround our business and our brand. When I am in town, I am at the office every day touching all aspects of the business. I do things my team tells me I should not have to worry about, but I believe it is partly why I am successful. I have my hands in everything.

Favorite fun activities: Spending time with my family and friends. I love traveling, the theater, concerts, and anything related to the ocean. I enjoy the work I do with nonprofit organizations, and I love collecting restaurants.

Exercise/workout: I walk 2.5 miles daily.

Favorite tech toys: I love all things tech. If there is a new gadget, I have to have it. I spend a lot of time with my iPad.

What are you reading? *The Success Principles* by Jack Canfield—for the fourth time.

Do you have a favorite quote/advice? "You can be anything you want to be, if only you believe with sufficient conviction and act in accordance with your faith, for whatever the mind can conceive and believe, the mind can achieve." (Napoleon Hill)

"You are the average of the five people you spend the most time with." (Jim Rohn)

Best advice you ever got: When I bought my first restaurant at 23, I was worried I might fail and 35 people were dependent on me for jobs. My mom said to me, "What is the worst thing that can happen? You start over at 26?" Once she said that, I was instantly okay and the fear went away. To this day, whenever I am faced with a challenge, I still ask myself, "What is the worst thing that can happen?" It always empowers me to move past any obstacles I may be facing.

Formative influences/events: I grew up very poor and knew I would have to work hard if I wanted to change my life. My mother had a great work ethic and empowered me to believe I could do anything I set my mind to. Every night as a child I would program myself to be successful and lead a good life.

How do you balance life and work? It is one of my biggest challenges. I am guilty of working too much, but when I do play, I play as hard as I work.

months later, when oil went bust in West Texas, Denny's offered to sell them "four dogs in that area."

Lafreeda and her partner went for it, but the California girl experienced culture shock in rural West Texas. She called Denny's corporate every week asking them to also sell her a unit in San Antonio, the nearest big city. "I think they finally did just to get me to stop calling," she says. "I've never been afraid to ask for what I want." Thirteen stores later, she bought out her partner and was on her way to the 70 Denny's she has today.

Looking back, Lafreeda recognizes the people who mentored and helped her along the way: people like Jim Orcutt, who taught her "how to borrow money," and her long-time CPA Robert Duskin and attorney Mike Baucom. She also

credits her "magnificent and talented" team with much of her success. "While I may have had the dream and the vision, they are the ones who go the distance and make it happen every single day," she says.

Despite all the talk about women in business bumping up the proverbial glass ceiling, Lafreeda has nothing but praise for Denny's corporate. "I've never felt discriminated against from the Denny's side. They've given me many opportunities. They're an iconic brand with a great product, and that's why I feel so much loyalty to them," she says. "Since I was 13, Denny's has been in my life. They've treated me well and put a roof over my head for most of my life," says Lafreeda, an active participant in brand and restaurant industry activities and committees. MUF

MANAGEMENT

Business philosophy: I have been asked to open other restaurants or concepts, and while I am often intrigued and have the means to do so, I feel a large part of my success is that I am only in one brand and I know it like the back of my hand. I also believe in the win/win philosophy and always giving back. I reinvest in my business and I always try to do the right thing. I am never afraid to ask for help or take a risk.

Are you in the franchising, real estate, or customer service business? Why? Yes, all of them. I am a franchisee, I own some of the real estate that my restaurants sit on, and I serve over a million guests a month. I am in all of those businesses because they all revolve around owning a Denny's. While you don't have to own your real estate to operate a Denny's, it has been a nice way to diversify and build equity.

What gets you out of bed in the morning? My family and the thrill of the next new restaurant I am going to open. I enjoy what I do and I love to work, so every day is fun for me.

What's your passion in business? I love all aspects of the building process. I love finding a site, finding the money, and making it a Denny's. I love when I can put a new Denny's in a neighborhood for people to enjoy.

Management method or style: I'm very hands-on. I have great leaders in place, but I really have my hands in everything. I believe it helps me keep my finger on the pulse of my company.

Greatest challenge: Finding and retaining talent in the restaurants and adhering to all of the industry regulations.

How close are you to operations? Extremely close. While I have a very sharp, top-notch VP of operations we still communicate on a daily basis about all things operational. Without the restaurants, we would not have jobs. She and I have the same philosophy about the restaurants and business and the importance of operations.

Have you changed your marketing strategy in response to the economy? How? Yes. I have invested additional dollars in local co-ops, which allows me to make tailored marketing decisions more geared for my specific area of the country in addition to the national media message. We are also focusing on things we can do in our local communities and inside the four walls of the restaurant.

Personality: Hard-working, organized, loyal, fair, caring, and fun.

How do others describe you? They would say I am someone they can count on. If I say I am going to do something, I do it.

How do you hire and fire? I have been very fortunate in that my core team has been with me a very long time, and I have not had to hire or fire anyone in many years. If I did though, I would hire individuals who share the same business philosophy and understand the importance of the guests and the restaurants. They need to have a broad understanding of the 24-hour business and have great people and support skills.

How do you train and retain? To stay relevant, you have to continually train and develop your staff. We are fortunate that Denny's puts a lot of emphasis on training and we are able to tap into all the training programs they offer.

How do you deal with problem employees? I do my best to coach, train, and develop, but sometimes no matter what you do, someone may not be cut out for the restaurant business or be a good fit for the company. I have learned over the years that in most cases you cannot change behaviors, and it is best to deal with the problem early on.

BOTTOM LINE

Annual revenue: $85 million

2012 goals: In 2012, we're going to focus on fine-tuning operations and getting acclimated to all our new acquisitions. I'd like to fill up a couple of territories here in Texas and I'd like to build a store in Chicago, where I purchased some existing stores from corporate recently. But we're going to take some time to catch our breath.

Growth meter: How do you measure your growth? I used to measure it in number of restaurants, but now I measure it in terms of geographic area, profitability, and the strength it provides to the overall enterprise.

Vision meter: Where do you want to be in 5 years? 10 years? I'll be enjoying all that I have worked for, spending time with my family, having more time to support my community and organizations I am passionate about and, of course, building restaurants.

How has the most recent economic cycle affected you, your employees, your customers? Times are definitely still tough. Costs are way up, employees are struggling to make ends meet, and guests have many dining choices. We all must do the very best job we can and give every guest the best value we can so they return.

Are you experiencing economic growth/recovery in your market? I believe so in most markets. My company is in 22 different DMAs and each is a little different. While West Texas may be booming because of oil, the Midwest is still struggling. All in all, I am seeing recovery, but it is costing quite a bit to gain and keep guests. We are discounting and offering a lot of value in these tough times, but it has been rewarded in increased guest traffic and loyalty.

What did you change or do differently in this economy that you plan to continue doing? Denny's has a $2 $4 $6 $8 value strategy that I believe in and feel is working well. It gives everyone who wants to dine out an affordable option. If you have only $2 to spend, you can still get a great meal at Denny's. We offer a discount program for seniors through AARP and we give everyone a free Build Your Own Grand Slam meal on their birthday. Denny's has been around for nearly 60 years. We want to have choices and options for our guests in these difficult and changing economic times.

How do you forecast for your business in this economy? It can be difficult. A lot of companies forecast annually, but I forecast quarterly as it lets me stay more in touch with what is going on in each restaurant and community. For instance, I can see if a road is closed or if a competitor opens or closes, if weather is a factor, or how utilities are trending. I feel forecasting quarterly allows me to budget and adjust for those things with more accuracy. I think my team also appreciates it as it can affect their sales and bonus opportunities. A good example would be when the tornadoes hit in Joplin, Missouri. I have two restaurants there, and had we budgeted annually we would have been way off. By budgeting quarterly, we were able to make the appropriate adjustments.

Where do you find capital for expansion? I have had great success with small community banks, and with equipment-based lenders like First Franchise Capital, Direct Capital, and TCF.

Is capital getting easier to access? Why/why not? Yes. Things have certainly eased up since 2008. I think lenders are being more cautious, but deals are getting done. Late 2008 and 2009 were very difficult. I think we were paralyzed somewhat for that period. Some deals are still hard to get done or require a fair amount of equity contribution. I have been fortunate in that I have been able to get financing for all the new development I have wanted to do. I think in part my size and length of time in business have helped. Denny's is also aggressive in helping us with lender relationships and creating programs for franchisees to take advantage of.

> **I started as a food server at 16 and believe with hard work and dedication you can move up and even own your own business.**

Have you used private equity, local banks, national banks, other institutions? Why/why not? I have never used private equity because I never needed to. I have used all the other methods and have been pleased.

What kind of exit strategy do you have in place? I don't have a formal exit strategy in place, but with every lease, loan, or deal I do, I try my best to structure it so that I can be less involved, exit, or sell. I pay close attention to lease terms, personal guarantees, lockouts, and prepayment penalties. I do my best to structure things so I have options.

What are you doing to take care of your employees? My employees are my most valuable asset. We constantly train and develop them and offer advancement opportunities. I started as a food server at 16 and believe with hard work and dedication you can move up and even own your own business. We offer great benefits and a friendly work environment. I am always growing the company and providing advancement opportunities for my team.

How are you handling rising employee costs (payroll, healthcare, etc.)? That is one of our biggest challenges. To stay competitive, we have to offer good benefits. With the rising cost of healthcare it is very difficult and uncertain right now.

How do you reward/recognize top-performing employees? We have a quarterly bonus program, contests, incentives, and awards. In some cases, key employees have been given partnership opportunities and have become franchisees themselves.

BY DEBBIE SELINSKY

Canadian Weed Man mega-zee also franchises in the U.S.

Mowing 'em Down

After 10 years at Union Carbide, Ottawa-born chemical engineer Roger Mongeon wanted to spend less time traveling and more time with his family. He also wanted to test his entrepreneurial wings and started looking at franchise concepts. His 24-year relationship with Weed Man, the 40-year-old lawn care franchise, began with a casual dinner at a neighbor's home.

"He was running a Weed Man franchise out of his basement, and when he showed me his financials for the previous year I couldn't believe the profitability of the franchise," Mongeon recalls. "I looked more closely at the industry and visited a lot of dealers before I made a decision. I was impressed by the success and enthusiasm of the Weed Man franchisees."


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In 1987, Mongeon, who says he's not a big risk-taker, nervously sold his home to buy a Weed Man franchise in Gatineau, in western Quebec. His goal was simple: he wanted to create a financially stable future for his family.

"The first year, when I was down to $5,000 on my line of credit, I had this big lump in my throat," he says. "The second year, we actually made money. By the third year, we were ready to expand."

By 1996, as one of Weed Man's largest franchisees in Canada, he purchased the rights to sell franchises in the United States from Weed Man founder Desmond

NAME: Roger Mongeon

TITLE: CEO

COMPANY: 1051080 Canada Inc., a holding company for several companies in the U.S. and Canada; Turf Holdings Inc., the U.S. operating company for Weed Man.

NO. OF UNITS: Operate 47 Weed Man units in Canada; U.S. franchisor for Weed Man, with 257 units in 35 states.

AGE: 61

FAMILY: Wife Louise; daughter Jennifer Lemcke, COO for Turf Holdings in the U.S.; son Daniel, who has just started in the company in franchise development.

YEARS IN FRANCHISING: 24

YEARS IN CURRENT POSITION: 18

PERSONAL

Key accomplishments: Developing Weed Man franchises in Canada, where we service 95,000 customers and make $30 million in sales, and developing and continuing to grow Weed Man in the U.S. after buying the rights in 1996.

Biggest mistake: It came in 2001, when the Supreme Court in Canada upheld the Hudson case saying cities had the right to ban pesticides. I felt that we had to hunker down and rein in the business just to survive. For two years, we cut capital expenditures and held back on salaries, and of course this did affect our business. When I looked at growth patterns, I saw that our business had been in trouble and I was the instigator. I realized that, although the environmental issues were still there, we needed to change that strategy. We spent double bringing the business back and things took off.

Smartest mistake: In 2008, at an industry trade show, everybody was depressed, with suppliers saying this economy is the end of our business. I didn't know if I was doing the right thing, but I went back to the office and talked to our franchisees. I told them 2008 was going to be a great year, not to hunker down, just to be aggressive in marketing and keep doing what they were doing. That turned out to be the right thing to do. We grew 2 percent that year, and in the last three years we've grown at a compounded annual rate of 15 to 20 percent in organic growth. My feeling was that our product was only a $300 item, and that even if 10 percent of people were unemployed, the rest were not going to let go of their biggest investment, their homes. It was the correct call, although I wasn't sure at the time it would be.

How do you spend a typical day? There is no such thing. I live seven months in Canada and five months in Florida. With my job, my primary focus is strategic planning. I'm always looking at expansion, acquisitions, and other concepts. I also spend a lot of time setting the right culture for the company and mentoring my team. What distinguishes us from other companies is that we are culturally attached to our business plan, which includes everything from personnel to marketing. I set the criteria and the two COOs execute. From there, we're maniacs in terms of monitoring. I have a key matrix that I look at on a weekly basis.

Work week: My work week is whatever is needed. I've never not taken a call at 2 a.m. if necessary. My key people are very good, so I'm not involved in day-to-day operations.

Favorite fun activities: Fishing, golfing, and traveling.

Exercise/workout: I golf a lot and work with a trainer three times a week.

Favorite tech toys: I'm an avid reader so my Kindle is my favorite tech toy.

What are you reading? I love history. I'm currently reading *The Great Sea: A Human History of the Mediterranean* by David Abulafia.

Do you have a favorite quote/advice? 1) If you can't measure it, don't do it; and 2) Trust and verify.

Best advice you ever got: Three months after I trained a guy in the lab where I worked, he was my boss. When I went home frustrated, my very wise wife said, "He's a chemical engineer—go to university and get your degree." I did that and it changed my life.

Formative influences/events: One was making it through the University of Ottawa and the applied sciences and mathematics I needed to get my chemical engineering degree. Nothing could really intimidate me after that. Another was working for Union Carbide, which gave me training with a multinational brand. While there, Jan Kooy mentored me and showed me the importance of business plans and being disciplined at looking at the numbers. Because of that training, when I went to buy my first franchise, I brought business planning to the franchisor—something that wasn't their strength at the time—and it has been embedded in our business ever since.

How do you balance life and work? I don't really have a problem with this. I'm always working but I'm also living life, enjoying fishing and walking and travel. The only time I really don't do work or even talk about it is the one week each summer when our three grandkids stay with us at our cottage.

"With a solid business plan, the right people, the right measurements, and proper feedback, we're going to succeed."

MANAGEMENT

Business philosophy: We've developed a management circle. It all starts with the business plan, which is core to our beliefs and culture and which tells us when to hire, how many to hire, and how to train in a way that helps us execute our business plan. Once trained, we empower our people and give them a lot of room to make mistakes. We trust and verify and measure everything. With a solid business plan, the right people, the right measurements, and proper feedback, we're going to succeed.

Are you in the franchising, real estate, or customer service business? In Canada, our operations concentrate on our customers; we're very service-oriented. In the U.S., we concentrate on our customers, who are our franchisees. We spend a lot of time developing training programs and marketing programs to help them be successful in satisfying their customers.

What gets you out of bed in the morning? New ideas, opportunities. We're working on a new marketing idea and I can't wait to get to the computer and look at the spreadsheet. I've really enjoyed working with an outside consultant for the last 3 years—not something I've been inclined to do in the past—and he has really helped our business.

What's your passion in business? It has evolved from the beginning when I was simply trying to create a secure financial base for my family. As time has gone on and we've become successful, my passion has been seeing our people grow and develop as people, buy houses, and raise kids. It's motivational to see the impact we've had on so many people.

Management method or style: I spend a lot of time with the business plan and offer the team plenty of room to operate and make mistakes. If there are different ideas or disagreements, we hammer it out in the business plan.

Greatest challenge: Environmental issues have been, by far, the biggest challenge for our business. It's also been the biggest disappointment to see government operate on emotions and not on science and to be forced to change to products that are much more expensive and deliver lower results to customers. Another ongoing challenge is dealing with marketing laws put into place by governments trying to justify their existence. I understand the bigger picture, but somehow it's got to be based on science.

How close are you to operations? Not at all in the day-to-day.

Have you changed your marketing strategy in response to the economy? How? We have changed our marketing strategy not because of the economy but because of legislation, such as the "Do Not Call" list. Also, we saw a shift in 2011 with more people buying on the Internet, so we've changed our marketing strategy and are developing our cyberspace strategic presence in response to customer buying behavior.

Personality: My daughter says I'm an analytical, driven individual with my eye on the results. I'm not a risk-taker but I'm extremely tenacious and loyal.

How do others describe you? My daughter says people view me as a leader who is tenacious, analytical, and loyal.

Fire and hire? I haven't really done much of that in years; the same six key reports I recruited are still with us. They've been allowed to buy shares. They've made a lot of money and they're worth a lot of money.

How do you train and retain? We continually do that, using the management circle to adjust training for results.

How do you deal with problem employees? In the past, I've been loyal to employees to the point of keeping them on too long. Two years ago, I hired a consultant who helped me understand what a problem employee can do to the rest of the people. We let some fairly senior people go and found that the managers who worked for them became better managers and more excited about the company. In one branch, we increased profit by 250 percent in one year by letting one person go.

"My passion has been seeing our people grow and develop as people, buy houses, and raise kids. It's motivational to see the impact we've had on so many people."

"Des" Rice, and created Turf Holdings Inc. to do business in the U.S.

Today Mongeon-the-franchisee has 47 Weed Man units in Canada, and Mongeon-the-franchisor has 257 Weed Man units in 35 U.S. states. That $5,000 line of credit balance is history: his total system sales top $100 million, with close to half coming from U.S. interests.

CEO Mongeon, who works closely with his daughter and Turf Holdings COO Jennifer Lemcke, attributes his success—both as a franchisee and a franchisor—to detailed, culture-based business plans, somewhat "maniacal" measuring and monitoring of "everything," ongoing training, and an extremely talented management team. Stringent environmental and marketing laws present constant challenges to his industry, he says, but there's plenty of room to grow, especially in the U.S.

The family man and avid golfer who spends seven months of the year in Canada and five in Florida, has simple but profound advice for aspiring franchisees. "You'll spend a lot of money buying a franchise and getting equipped. When you start, you'll find that even though you've been trained, everything is new and you have a lot of doubts. My best advice is to keep with the system and be tenacious. In the end, it's not the smartest guy who'll be successful—it's the one who's a bulldog in executing the system." MUF

BOTTOM LINE

Annual revenue: Total system sales are $100 million-plus, with close to 50 percent of that in the U.S.

2012 goals: In Canada, we're budgeting for between 10 and 13 percent; in the U.S., our franchisees are doing their budgets and we're budgeting for between 15 and 20 percent growth.

Growth meter: How do you measure your growth? In Canada, we measure through the top line. In the U.S., we measure by total system sales, number of customers, and number of new units added.

Vision meter: Where do you want to be in 5 years? 10 years? In Canada, we want to maintain double-digit growth and better target our marketing programs to homeowners. We're also considering other concepts. If we don't do anything, we'll have a hard time meeting our goals, but it's important to choose the right concept. In the U.S., our vision is to establish a national brand across the country. We're still localized, but in the next 5 to 10 years, we'll be there. Our goal is to be in every state and every major market, to maintain organic growth of 15 percent, and to double our units in the next 10 years.

How has the most recent economic cycle affected you, your employees, your customers? It hasn't.

Are you experiencing economic growth/recovery in your market? We continue to show solid growth, and I sense that the consumer is more at ease. We knock on millions of doors and phone millions of people every year, so we have a good sense of what's going on. I think a lot of it is attitude. If you feel you're going to have a bad year, you're going to have a bad year. We've taken a different approach.

What did you change or do differently in this economy that you plan to continue? Nothing.

How do you forecast for your business in this economy? When we sit down with our business plan, our historical data is already in the plan, so we know what our contact and closing rates are. We use that, and it's pretty accurate in terms of where we'll be at the end of the year.

Where do you find capital for expansion? After 1993, all our acquisitions have been made using banks and cash flow. In the past four years, we've used only cash flow.

Is capital getting easier to access? Not for our franchisees, who have experienced serious difficulties in accessing capital. We've provided our franchisees with business plans and helped prepare them to go to the banks. We've also started a program in which we self-finance part of the startup costs of franchisees.

Have you used private equity, local banks, national banks, other institutions? Before 1993 we used family, friends, and colleagues. Since 1993, it's been all banks or cash flow.

What kind of exit strategy do you have in place? I'm not sure about that yet, but we have such an exceptional management team, including my daughter Jennifer, that I could retire tomorrow and have minimal impact on the business. However, we're happy and still have lots of room to grow, especially in the U.S., so I'm not really thinking about that right now.

What are you doing to take care of your employees? The biggest thing we can do for our employees is to continue to grow and create opportunities for them. We also pay our employees really well.

How are you handling rising employee costs (payroll, healthcare, etc.)? In Canada, of course, healthcare is not an issue. In the U.S., it's a different story. Generally, our payroll has been covered by price increases.

How do you reward/recognize top-performing employees? In our company, we like to have our employees motivated, so a portion of everybody's salary is geared to bonus and commission. We have a matrix that determines allocation of these benefits.


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BY TRACY STATON

Diversifier Supreme

Ray Harrigill keeps growing with new brands

Ray Harrigill believes in diversification. His Sunray Companies has restaurants (Bumpers Drive-In), tanning salons (Palm Beach Tan), fitness centers (Koko FitClub), and hotel properties (Hampton Inn), to name a few. That's because of lessons he's learned along the way.

Harrigill got his start in the restaurant business working in a multi-unit, multi-concept company. When he set out on his own, restaurants were his first choice but he couldn't open new units quickly enough to satisfy his goals. He began opening Blockbuster Video stores

"Once you build up a membership base, it continues to pay every month. Most of the time in business you don't get that opportunity."

NAME: Ray Harrigill

TITLE: Managing member

COMPANY: Sunray Companies

NO. OF UNITS: 2 Bumpers Drive-In, 1 Blockbuster Video, 5 Palm Beach Tan, 2 Massage Envy, 1 Koko FitClub, 3 Hampton Inn

AGE: 42

FAMILY: Beautiful wife and 13-year-old twins

YEARS IN FRANCHISING: 19

YEARS IN CURRENT POSITION: 15

"There was never any question in my mind that I would own my own business one day. I was fortunate that I was given the opportunity to run someone else's business at a young age."

in 1999, quickly ramping up to four. But even then it was clear to Harrigill that the Blockbuster model wasn't "a long-term business play." So he began diversifying further.

"I invested some money in comprehensive rehab facilities, which I lost a fortune in, and almost simultaneously got into the tanning business. We did really well with that," says Harrigill, who now has five Palm Beach Tan salons.

That experience led him to another business epiphany: membership-based businesses offer a more predictable, more certain level of cash flow than retail or restaurants can. So he's added Massage Envy and Koko FitClub into his mix.

"We think of it as investing in an annuity of sorts," says Harrigill. "Once you build up a membership base, it continues to pay every month. Most of the time in business you don't get that opportunity."

He knows this firsthand, of course, given his experience in the food business. "In restaurants, you fight for every dime and nickel through the entire month," he says. "With membership-based businesses, you have a set amount of revenue you can count on."

So, these days Harrigill is looking toward growing further through diversification and by expanding his holdings in membership-based businesses. As ambitious as he is, he doesn't intend to grow too far from home. "We want to develop in our core area," he says. "I'm not interested in developing around the country. I used to travel a four-state area, and it's not very conducive to family life."

While the slow economy has tempered Harrigill's expectations for growth, Sunray has managed to build both revenue and profitability. His near-term goal is to continue that trend of profitable growth, within what he calls a "fairly reasonable" footprint. "I don't mind working hard," he says. "But I do like to go home at night." MUF

PERSONAL

Key accomplishments: Development of a dedicated and loyal team.

Biggest mistake: Buying the licensing rights for and opening two Comprehensive Outpatient Rehabilitation Facility (CORF) units. I lost a fortune and closed both.

Smartest mistake: Opening my first Palm Beach Tan in a relatively small market so I could learn the business. The fact that we were able to be a big fish in a small pond led to high volume with lower overhead.

How do you spend a typical day? I am at work by 8 a.m. after I drop my kids off at school. I generally still work a 12-hour day. I spend a great deal of time reviewing performance numbers and costs, as well as directing and motivating the team. I also perform the second interview for all key holders. Any other moment of the day, I am on the phone. Oh, and bankers. I talk to bankers whenever possible.

Work week: Usually 5 days. I try to take off Saturday and Sunday unless we are opening a unit.

Favorite fun activities: Spending time with my family.

Exercise/workout: Koko FitClub, of course. It is the perfect 30-minute workout.

Favorite tech toys: My BlackBerry and the ability to tap into my office remotely.

What are you reading? Trade magazines, *Fortune,* and *Money.* I also use a number of RSS feeds to provide up-to-date information on the world. I also enjoy fiction but rarely make time to read for pleasure.

Do you have a favorite quote/advice? If you want different results, you have to change what you are doing.

Best advice you ever got: To get a professional degree.

Formative influences/events: I grew up in a family of entrepreneurs and was fortunate to go to work for a very successful multi-unit, multi-concept restaurateur in my first professional job. There was never any question in my mind that I would own my own business one day. I was fortunate that I was exposed to the idea early and given the opportunity to run someone else's business at a young age.

How do you balance life and work? I love to work and do so for the benefit of my family. I work hard because you never know when you will not be able to. This philosophy has always allowed me to be there for the important moments.

MANAGEMENT

Management method or style: Persistent. I also strive to find self-motivated people who take pride in their work and in our company.

Greatest challenge: Balancing opportunity, capital, and risk.

How close are you to operations? I know a lot about the respective industries we are in. I try to understand the key metrics of each as well as the challenges our managers face. My job is to help them grow and be successful managing their own business.

Have you changed your marketing strategy in response to the economy? How? We are constantly reevaluating our marketing spend and try to place dollars that generate profitable revenue.

How is social media affecting your business operations? The evolution of social media in the past few years is nothing short of phenomenal. We are incorporating it wherever possible.

Are you in the franchising, real estate, or customer service business? Why? Some of all, but customer service is the foundation of our company. We cannot grow without providing real value for our customers.

As an operator, what are the two most important things you rely on from your franchisor? A great system/product and resources we don't have.

What gets you out of bed in the morning? The opportunity to move forward.

What's your passion in business? Seeing people grow.

How do others describe you? Precise, focused, and driven.

How do you hire and fire? I always interview key holders or managers once they have been recommended by managers or supervisors. I generally only discipline or fire supervisors or office staff.

How do you train and retain? We are always looking for ways to train and engage our staff. Franchisors generally provide great material for this. We also use third-party seminars and bring in people to teach classes for our staff.

How do you deal with problem employees? Directly. Honesty either moves them in the right direction or moves them out.

BOTTOM LINE

Annual revenue: Undisclosed

2012 goals: We are planning to open a few Koko FitClubs this year. We are also evaluating additional Palm Beach Tans and Massage Envys.

Growth meter: How do you measure your growth? Bottom line cash flow before and after debt service.

Vision meter: Where do you want to be in 5 years? 10 years? We are always seeking profitable growth. I am not fixated on a particular number of units or certain annual growth limits. That said, I believe we will double our size in the next 5 years. In 10 years I believe we will be growing out of active cash flow and de-leveraging. We really like membership-based businesses and see that as a growth vehicle for the coming years.

How has the most recent economic cycle affected you, your employees, your customers? As a company, we have been remarkably fortunate to build profitable revenue when the general economy has been poor. This has also allowed our employees to continue to grow. Without question, our customers have less to spend. This has forced us to provide more value for their limited dollars.

Are you experiencing economic growth/recovery in your market? Growth.

What did you change or do differently in this economy that you plan to continue? Diversify, diversify, diversify.

How do you forecast for your business in this economy? We have tempered our expectation for growth and realized that you can't project the same growth for all the market segments we operate in. We feel like if we are beating the industry average, we are being successful.

Where do you find capital for expansion? Cash flow and debt.

Is capital getting easier to access? Why/why not? Hospitality has been unbelievably difficult in the past few years. It seems like it has started to get better, but the rules have permanently changed: different loan-to-value ratios, different cash flow expectations from lenders, different amortizations, etc. Loans for our retail businesses (without real estate) have been nonexistent. If you have real estate, strong cash flow, and don't really need the money, the banks are delighted to lend to you.

Have you used private equity, local/national banks, other institutions? Why/why not? I have never used private equity. We use local and national banks. We have only done one equipment leasing deal since I have been in business and regretted it.

What kind of exit strategy do you have in place? We try to balance our cash-producing businesses and their associated short-term debt against our real estate and its associated long-term debt. As we reduce our short-term debt, it allows us many options to sell our cash flow in the future. The residual value in real estate is the long-term retirement plan.

What are you doing to take care of your employees? We maintain a performance-based environment and try to reward our team based on their production. We are always trying to add value to their compensation.

How are you handling rising employee costs (payroll, healthcare, etc.)? We try to stay ahead of inflation with revenue and by increasing cash flow through managing variable cost control.

How do you reward/recognize top-performing employees? We are a sales-focused company. We try to celebrate success and help our management grow professionally and financially.

BY DEBBIE SELINSKY

Flight Controller *Enduring values keep Tom Barnett aloft in turbulent times*

Favorite quote:
"Develop people—they will become your image, build your strength, and set you free."

In business, a lot changes in three years, especially in a down economy. And while his business has taken a turn for the worse, Tom Barnett's values and commitments remain strong as ever.

Since *Multi-Unit Franchisee* profiled the Arizona-based multi-unit, multi-brand franchisee in 2008, the skier, pilot, and family man has purchased a small private jet that he flies. His son is now 18, his daughter is 20, and he and his wife, Georgia, have been married for 25 years. His favorite pastimes include skiing with them in Colorado.

Unfortunately, what hasn't changed, says Barnett, is the four-year decline experienced by his Phoenix and Tucson area Burger Kings, The Good Egg restaurants (a full-serve concept he owns with friends), and Blue Burrito Grilles he contracts out in airports.

NAME: Tom Barnett

TITLE: President

COMPANY: Barnett Management Co.

NO. OF UNITS 2012: 21 Burger Kings; 19 The Good Egg restaurants (a concept we own with friends); 6 Blue Burrito Grilles (which we franchise out to airports)

NO. OF UNITS 2008: 22 Burger Kings; 20 The Good Egg restaurants; 2 Blue Burrito Grilles (plus 5 operated under license by HMSHost at airports)

AGE: 65

FAMILY: Wife Georgia; a son, 18, and a daughter, 20

YEARS IN FRANCHISING: 32

YEARS IN CURRENT POSITION: 32

"I've never seen anything like it—none of us has," says Barnett, a former fighter pilot in Vietnam turned UCLA MBA-wielding franchisee and franchisor. "Many of my fellow Burger King franchisees are doing worse than we are. I keep asking myself how things can be worse."

Born into a military family and having spent six years in the U.S. Air Force, Barnett knows about hunkering down, and that's what he's been doing. Growth has been put on hold and bonuses and

PERSONAL

Key accomplishments: Having two successful, drug-free kids who still want to be in the family.

Biggest mistake: Taking on too much debt.

How do you spend a typical day? Most days aren't typical, but I do a fair amount of reading, spend an hour or two exercising, and meet with key people.

Work week: 24/7, unfortunately.

Favorite fun activities: Flying and skiing, having great times with my wife and kids.

Exercise/workout: Mainly cycling to stay in shape for skiing and weight lifting.

Favorite tech toys: My private jet is my favorite toy. I also like my iPad and iPhone.

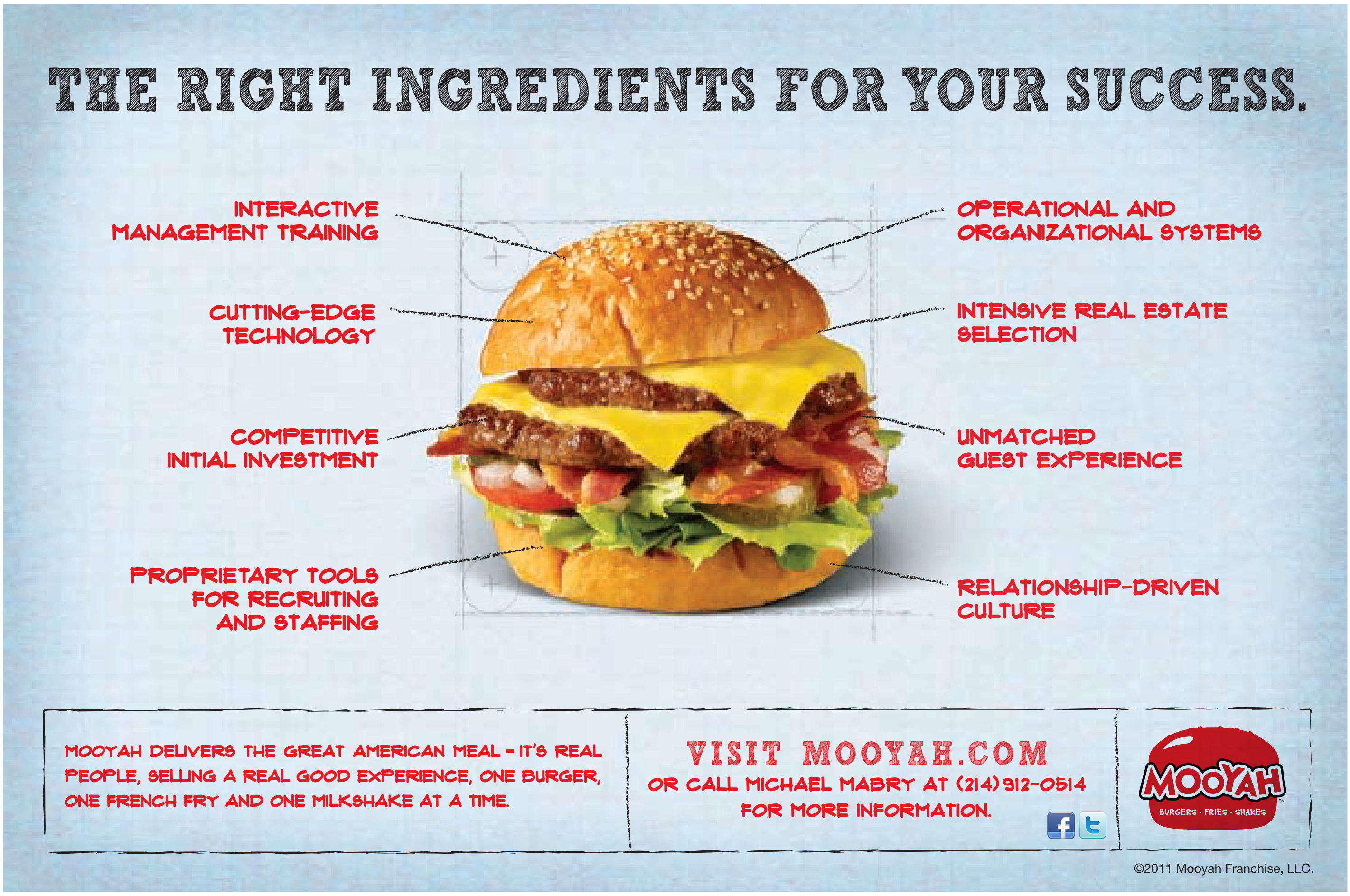
What are you reading? *The Tehran Initiative* by Joel Rosenberg.

Do you have a favorite quote/advice? I have several. This one has been on my desk for more than 25 years: "Develop people—they will become your image, build your strength, and set you free." I also like: "Have the courage and the foresight to concentrate on critical tasks rather than trying to do it all." And Peter Drucker's, "If the pressures, rather than the executives, are allowed to make the decisions, important tasks will predictably be sacrificed." And I was taught—and I've taught my children—that you must be willing to pay the price without any guarantees of achieving any exact goal.

Best advice you ever got: Surround yourself with the best possible people.

Formative influences/events: When I was in high school, I knew some generals in the Air Force (my father was in the military) and I met a Thunderbird pilot and decided that being both of those things would fulfill my ambitions. That got me into the military and got me flying. Along the way, I've known exceptional leaders I've been able to emulate. These include Pat Ryan of Pat Ryan and Associates of Chicago and General Troy Tolbert, my leader in combat in Vietnam.

How do you balance life and work? Not very well. It seems my mind is always racing and I'm always thinking about possibilities, the business, and cash flow.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Best advice:
"Surround yourself with the best possible people."

raises suspended for the past three years. The up side, in addition to the fact that he's been able to spend more time with his family, is that "We've been able to keep everybody so far."

One thing the economy hasn't affected is his close working relationships. "I've been so blessed with the two best partners you could ever have. On the Burger King side, Shelley Krispin has been my partner for 30 years, and she does the work of two or three people. And in the Good Egg franchise, there's Charlie Syburg, who I've worked with for 25 years. Our partnerships work because we truly trust and love each other and we share Christian values."

Another positive, says Barnett, is the new ownership and management team at Burger King corporate. "They are doing a wonderful job of turning around and revitalizing what had been a concept in a four-year death spiral. They understand the business and what it means to be franchisee-driven. Operations are improving and products are greatly improving."

With the same tenacious approach he takes to business and life, Barnett says he has worked hard to become a better Christian and to demonstrate that in every aspect of his life. "I'm very committed. I have an ethical and moral responsibility to treat everyone in a certain way. I've

MANAGEMENT

Business philosophy: My overriding business philosophy is that I can prosper and grow only to the extent that first I can attract, motivate, and retain exceptional people in each critical area, and second, to the extent that I am willing to allow them to use their own initiative to exceed our mutually established goals.

Are you in the franchising, real estate, or customer service business? I'm in all of those.

What gets you out of bed in the morning? The possibilities of the day get me out of bed. It's a chance to build something or fix something.

What's your passion in business? My passion in business is to do the right thing. As a really strong committed Christian, I need to honor God with all I say and do and in all my work and efforts.

Management method or style: I'm always looking to the future, being proactive, putting people in the right place and then getting out of the way. My 18-year-old son says, "Dad gives me lots of freedom, great wide boundaries. But I know what they are and I don't ever want to cross them." I want our team to be motivated and inspired and to feel free enough to make honest mistakes.

Greatest challenge: Cash flow.

How close are you to operations? Not very close. If I try to spread myself too thin, then I'm taking over somebody else's job.

Have you changed your marketing strategy in response to the economy? How? Burger King has in the last six months gone more toward solid product advertising that says our great food is getting even better.

Personality: I'm extraordinarily driven and intensely goal-oriented. I am the easiest, gentlest person to get along with but my standards and expectations are very high.

How do others describe you? The same.

How do you hire and fire? At this point, all my key people have been with me for at least 20 years, so I don't hire or fire anybody. I delegate that.

How do you train and retain? We train thoroughly, thoroughly, thoroughly. The number-one cause for a person leaving a job is a feeling of insecurity and inadequacy from lack of training. We retain our employees by honoring them and showing them where their personal and professional goals can be met within our company. Our average tenure for restaurant managers exceeds 8 years, and we have several who have been with us for more than 15.

How do you deal with problem employees? For a judgment failure—a bad decision or lost temper—we will retrain, motivate, and encourage once or twice before letting them go. Years ago, an employee made a $10,000 mistake and he was amazed that I didn't fire him. I told him, "I just paid $10,000 in steep tuition, but you'll never make that mistake again. So get back to work." For moral failures, such as stealing or sleeping with the staff, they're gone immediately. But as a Christian, we don't want anybody leaving angry or not having learned something from being associated with us. We never want to damage anybody—we invest in people; they're the heart and soul of the company.

"My overriding business philosophy is that I can prosper and grow only to the extent that first I can attract, motivate, and retain exceptional people in each critical area."

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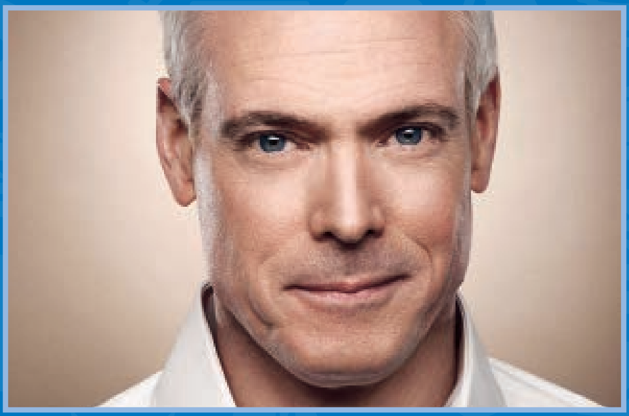

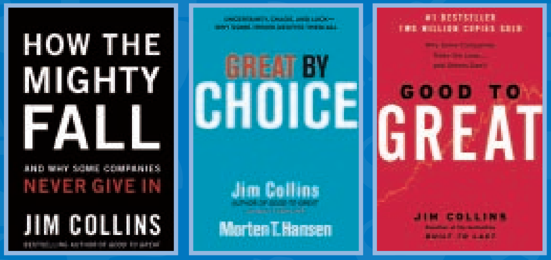

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GREAT BY CHOICE: UNCERTAINTY, CHAOS, AND LUCK – WHY SOME THRIVE DESPITE THEM ALL.

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Cutchall Management
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"Set an example for your people, keep expenses down, and grow slowly."

been inordinately blessed by God. Any success I've had I see as a blessing and the result of everybody else's efforts." It's those values, along with a can-do attitude, that keep an energetic Barnett going. "I've been taught to never, ever give up. If you give up, you've lost," he says.

Barnett, a graduate of the U.S. Air Force Academy, is an admitted workaholic, and in the current economy, he doesn't see slowing down much any time soon—but he also doesn't intend to stop living life. "I'm not in the office every day, but there's never a time I'm not working," he says. "I'll be skiing in Colorado in February, but I'll still work every third day for several hours a day. I'm relentless."

For Barnett, the key to making it all work remains working with outstanding partners to run the best franchise operation possible and maintain a system that allows everyone in the company to develop and do their best. "I like to say I'm in the people development business," he says.

Barnett clearly is not looking toward 2012 through rose-colored glasses, and remains frustrated with government actions and inaction regarding the economy. His best pep talk for would-be franchisees? "It had better be something you really like to do and are willing to work at seven days a week. You need to set an example for your people, keep expenses down, and grow slowly. Everybody doesn't have to own a huge company. Some people enjoy being behind the counter every day, and that's fine." MUF

BOTTOM LINE

Annual revenue: About $40 million.

2012 goals: Most important, we want to deal with cash flow and reverse this decline. All my businesses have been on a steady decline for the past four years. I've never seen anything like it.

Growth meter: How do you measure your growth? With the way things are in this economy, we're not concerned with growth. We're concerned with being here next year.

Vision meter: Where do you want to be in 5 years? 10 years? Five years from now I intend to be semi-retired devoting much more time to the faith and family charities I have supported for over 20 years, organizations such as Young Life and Crisis Pregnancy Centers.

How has the most recent economic cycle affected you, your employees, your customers? As a company, we've had to put growth on hold. Our key employees have received no bonuses or raises for three years and have had to take a 5 percent pay cut, which is devastating. However, we've kept everybody so far. We know we're seeing our customers less often because they have much less discretionary income.

"Our key employees have received no bonuses or raises for three years and have had to take a 5 percent pay cut. However, we've kept everybody so far."

Are you experiencing economic growth/recovery in your market? No.

What did you change or do differently in this economy that you plan to continue? We're just more careful than ever and trying to hang on until things improve.

How do you forecast for your business in this economy? Because of the trends, we're forecasting down 2 to 5 percent.

Where do you find capital for expansion? We're not working on that at all.

Is capital getting easier to access? No, harder.

Have you used private equity, local banks, national banks, other institutions? All of the above.

What kind of exit strategy do you have in place? We have excellent people and I have two sharp kids. My son is interested in the business, but my daughter is not. I'm uncomfortable with nepotism, so he knows he'll need to go somewhere else and be successful before he comes to work with me.

What are you doing to take care of your employees? Holding the business together so they have a job.

How are you handling rising employee costs (payroll, healthcare, etc.)? We'll have to take a price increase in January 2012 when the minimum wage goes up in Arizona.

How do you reward/recognize top-performing employees? In the past, we've rewarded with recognition and bonuses. Unfortunately, now there's just no extra cash.

BY DEBBIE SELINSKY

Proudly Built from Scratch

In 32 years, Tommy Haddock has never closed a restaurant

Reconnecting: with Tommy Haddock

Tommy Haddock has added 10 Bojangles' Famous Chicken 'n Biscuits restaurants since we profiled him six years ago. As he approaches 50 units, this "hands-in" operator says his favorite photo of himself shows him making biscuits—a testament to his made-from-scratch, multi-million-dollar organization and his ongoing love for operations.

Not that he would ever win his company's biscuit-making competition. "I can make a pretty good biscuit, but I'd lose out on speed," says the easygoing North Carolinian who opened his first Bojangles' restaurant 32 years ago.

A graduate of North Carolina State University's School of Forestry, Haddock worked for a local power company before entering the restaurant industry. He learned from the best: Bojangles' founder Jack Fulp (now deceased), who also happened to be his father-in-law. "Jack connected me with the [Jerry] Richardson family and we formed a partnership, opening our first restaurant in January 1980," he recalls. "When we opened our first restaurant, we were the 13th in the chain. The number 13 has been good to us."

Haddock's wife of 40 years, Donna, handles administrative

NAME: Tommy Haddock

TITLE: Co-founder and president

COMPANY: Tri-Arc Food Systems

NO. OF UNITS 2012:
46 Bojangles' Famous Chicken 'n Biscuits

NO. OF UNITS 2008:
36 Bojangles' Famous Chicken 'n Biscuits

AGE: 60

FAMILY: Wife Donna and two sons

YEARS IN FRANCHISING: 32

YEARS IN CURRENT POSITION: 32

PERSONAL

Key accomplishments: Our primary accomplishment is building, owning, and operating 46 restaurants from scratch. We're also proud that in 32 years we've never closed a restaurant—they're all still open and running. It was also an honor to receive the Restaurateur of the Year Award in 2006 from the North Carolina Restaurant and Lodging Association and to serve as chairman of the board for that organization in 2003.

Biggest mistake: I try to forget my mistakes—I only look forward.

Smartest mistake: My smartest mistake was leaving an 8-to-5, Monday-to-Friday job to get into the restaurant business. There were times I asked myself what in the world I had done, but looking back it was the smartest thing I've ever done.

How do you spend a typical day? I'm up at about 6 a.m., and I try to go by one of our restaurants—either inside or through the drive-thru—before going to the office. The first thing I do at the office is read and respond to emails. Then it's on to all the necessary daily chores. I eat lunch at one of our restaurants about three times a week.

Work week: The majority of my work week is Monday through Friday, but I am available at all times to all of my management team and restaurants. They have my home and cell numbers. I only get a few calls off hours any more but I make myself available.

Favorite fun activities: Playing golf, saltwater fishing.

Exercise/workout: I usually exercise three times a week. It can vary from walking a couple of miles to actually working out for an hour in my home gym.

Favorite tech toys: I'm not a techie, but I have all those things and can get the fundamentals done. If I have a favorite tech toy, it's probably my Microsoft Flight Simulator. I always wanted to fly but have never found the time to learn.

What are you reading? I read a lot of industry magazines and I read the newspaper, starting with sports and going to the business section.

Do you have a favorite quote/advice? I'm a graduate of NC State University, and when I need a little pep talk, I remember Jimmy Valvano's (the late men's basketball coach) "Never give up" speech.

Best advice you ever got: The best advice I ever got was from Bojangles' founder Jack Fulp (whose daughter I married), who often said, "The secret is in the biscuit." Even though it is Bojangles' Famous Chicken 'n Biscuits, the biscuit really is the center of the restaurant.

Formative influences/events: I have had two mentors: Jack Fulp, founder of Bojangles', and my business partner Jerry Richardson, owner of the Carolina Panthers. They did more to help me learn the business than anyone.

How do you balance life and work? I guess my work is my life and my life is my work. But as I've gotten older I've gotten better at separating the two and being able to remove myself from work. I know I have good people in place getting the job done and that I can depend on and trust them. That helps me to enjoy life, golfing, fishing, and now my three grandchildren.

"We put a lot of our resources into training. When we bring people into our organization, we bring them along slowly, working with them to help them learn our system, our business philosophy, and how we want to treat our customers."

MANAGEMENT

Business philosophy: Take one day at a time.

Are you in the franchising, real estate, or customer service business? We're in the customer service business. Without putting customer service number one on the list, there would be no reason for any other phase of the business.

What gets you out of bed in the morning? I enjoy each day and the challenges it brings—both the ones I know about and the ones I don't. That's one of the pros and the cons of the business, never knowing what to expect. There's definitely nothing mundane about what we do.

What's your passion in business? Our employees.

Management method or style: We give people a lot of latitude in their jobs as well as opportunities to succeed, make mistakes, and learn from their mistakes.

Greatest challenge: Our greatest challenge is coping with the outside influences and government regulations we are faced with today while continuing to run a profitable business.

How close are you to operations? I'm operations-oriented, so I'm involved every day.

Have you changed your marketing strategy in response to the economy? How? We are doing more value meal kinds of marketing, looking closely at pricing, and using the Internet and our Facebook page to reach out to more people, especially younger people and teens.

Personality: Most of the time, I'm fairly easygoing, and I try to think before I speak. However, like most people, I've had to have my foot surgically removed from my mouth more than once.

How do others describe you? They would say the same, but most of my team has been around long enough to know when to give me a little space.

How do you hire and fire? I hire and fire very carefully, and we don't fire very many people. We find that those people who don't fit into the organization usually weed themselves out.

How do you train and retain? We put a lot of our resources into training. When we bring people into our organization, we bring them along slowly, working with them to help them learn our system, our business philosophy, and how we want to treat our customers. When people leave, we do exit interviews to learn what we may do better and how to make a better work environment. Over the past 32 years, we've learned something every time we lose an individual from the organization. We feel a sense of obligation to our employees. After all, they make us successful.

How do you deal with problem employees? I don't deal with any unless they're in upper management. Generally, we counsel people, give them goals to reach and opportunities to improve. If their goals are not in sync with ours, more often than not they leave on their own.

BOTTOM LINE

Annual revenue: More than $100 million

2012 goals: We want to continue to grow by opening new restaurants, evaluating our position in our markets, and making sure we maintain the image we have and the brand awareness we have developed over time. Even though we're a franchisee, we're always evaluating our menu to see if there are things we can do better or ideas we need to consider. We want to maintain profit levels equal to or better than the preceding year.

Growth meter: How do you measure your growth? We look at numbers for our new units as well as same-store sales. We look at the profits behind same-store sales because we've always believed philosophically that if we grow top-line sales and grow our gross revenues, the bottom line will take care of itself.

Vision meter: Where do you want to be in 5 years? 10 years? We're the tortoise instead of the hare. Today we have 46 restaurants, and it took us 32 years to get here. If we could continue our growth at the same pace for the next 5 or 10 years, I'd be satisfied. In the next 5 years, I would anticipate I will continue to operate the restaurants and be on the job every day, just like I have for 32 years. In the next 10 years, somewhere along the line, I'll be talking about the transition process so this company will continue doing what we are now.

How has the most recent economic cycle affected you, your employees, your customers? We're very aware that our customers are carefully managing their dollars and choosing where they spend those dollars. We want to continue to be part of our customers' routines on a daily or weekly basis, and we're trying to accommodate them as much as we can. Our employees are in the same boat, stretching their dollars. Our business is faring better than a lot of people in our industry, but I wouldn't say we've been unaffected.

Are you experiencing economic growth/recovery in your market? Seems to be negligible, flat.

What did you change or do differently in this economy that you plan to continue doing? We have become more cost-conscious than we were. We have learned that we can operate more efficiently than we have in the past. We'd gotten a little fat and sassy with all the good times, but we've learned that we can trim some fat and operate just as efficiently. We're not cutting back employees on the restaurant level—we have about 2,500—but we haven't added to upper management and we have a lot of people going beyond the call of duty to help us.

"We're not cutting back employees on the restaurant level—but we haven't added to upper management and we have a lot of people going beyond the call of duty to help us."

How do you forecast for your business in this economy? We've been in this economic rut for enough time now that if there's any optimism, it's that we think things won't get worse and that we can at least maintain where we are. So for a number of years, our forecasts and projections have been to remain flat or slightly down. Bojangles' does a good job on the purchasing side, keeping us informed as to what is coming down the pike, and what we can expect as far as commodities prices and how they affect the P&L statement.

Where do you find capital for expansion? We have been fortunate to have a great relationship with our bank for a long time. They have been good to work with.

Is capital getting easier to access? No. Out of necessity, banks are looking more closely than ever at who they lend to. Successful, established companies like ours are able to continue, but it's extremely difficult for young companies and startups.

Have you used private equity, local banks, national banks, other institutions? Our relationship is with a national bank. We have opportunities to use local banks who have expressed interest in working with us, but our primary bank has taken such good care of us over the years that we've stuck with them.

What kind of exit strategy do you have in place? I'll let you know in 10 years.

What are you doing to take care of your employees? We have a 401(k) plan and our management people share in our success through a nice commission system that we put in place many years ago. We have a lot of long-term employees—one has been with us since the first day we opened. She has grown with us and is now one of our area directors supervising seven or eight restaurants.

How are you handling rising employee costs (payroll, healthcare, etc.)? Unfortunately, with healthcare, we have had to pass some costs on to our employees. We continue to pay the bulk of the cost. The only other place we can offset is through menu board items. Sometimes we get squeezed in the middle and sometimes we have to take less profit.

How do you reward/recognize top-performing employees? About 25 years ago, we started what we called the Biscuit Banquet, where we'd have a biscuit-making competition and recognize the winner. That has grown into an annual banquet where we recognize manager of the year and assistant manager of the year. In addition to the public recognition, we reward them with a monetary gift.

Best advice:

"Even though it is Bojangles' Famous Chicken 'n Biscuits, the biscuit really is the center of the restaurant."

and HR duties for the company, which has become known over the years for its close connection to the North Carolina and Virginia communities where its restaurants are located.

"We challenge our unit managers to know when local high schools have athletic events, who's playing, and whether it's a big game. We reach out to as many of the high school organizations as we can. We feel that, over time, this has helped us build our brand and presence in the market," says Haddock, whose favorite Bojangles' treat is the country ham and egg biscuit.

The company is also using other methods to reach out to the young people who will be its customers over the next 20 years, adds the father of two and grandfather of three. "We want to cultivate these young people as customers so we're doing more with electronic media, such as Facebook. We also want to keep our base customers, so we try to offer something special from one end of the spectrum to the other."

Recipient of the North Carolina Restaurant and Lodging Association's Restaurateur of the Year award in 2006, Haddock says he's proud of what he and his team have built. "We try to remind people that even though we're part of a chain, we are a local restaurant, too—locally owned and operated." MUF

2012 Mega Franchisee Rankings

Each year we work with FRANdata to compile a list of the country's largest multi-unit franchisee organizations. Based on unit count, the rankings show not only the number of units they operate, but also the brands favored by these "mega" franchisees. The list is dominated by food brands, but also includes non-food concepts such as business services (tax preparation), consumer services (automotive), and lodging. Building a multi-unit empire is a matter of taste, opportunity, passion, and comfort level. Seeing what the "big guys" are buying for their portfolios may help guide you if you're looking to expand and diversify your own growing empire.

RANK	NAME	UNITS	BRANDS
1	NPC International Inc.	1,155	KFC, Pizza Hut, Taco Bell
2	Target Corp.	1,082	Jamba Juice, Pizza Hut
3	Borders Inc.	480	Seattle's Best Coffee
4	HMSHost Corp.	469	360 Gourmet Burritos, A&W Restaurants, Blimpie's, Bruegger's, Burger King, Chili's, Cinnabon, Cold Stone Creamery, Dickey's Barbecue Pit, Dunn Brothers Coffee, Einstein Bros. Bagels, Famous Famiglia Pizzeria, Godfather's Pizza, Gordon Biersch, Great Steak & Potato Company, Häagen-Dazs, Johnny Rockets, KFC, Manchu Wok, Maui Tacos, Nathan's, On the Border, Pinkberry, Pizza Hut, Popeyes Louisiana Kitchen, Quiznos, Ranch One, Roy Rogers, Ruby's Diner, Salsarita's, Sbarro, Taco Bell, T.G.I. Friday's/Friday's Grill, The Great American Bagel, Tony Roma's, Villa Pizza/Cozzoli's Pizza/Villa Fresh Italian, Wall Street Deli, Wolfgang Puck Express, Yeung's Lotus Express
5	Harman Management Corp.	431	KFC, KFC/A&W
6	AAFES	430	A&W Restaurants, Baskin-Robbins, Blimpie's, Burger King, Captain D's, Carvel, Charley's Grilled Subs, Church's Fried Chicken, Cinnabon, Einstein Bros. Bagels, Godfather's Pizza, Manchu Wok, Pizza Hut, Popeyes Louisiana Kitchen, Subway, Taco Bell, Taco John's
7	Heartland Automotive Services Inc.	426	Jiffy Lube
8	Aramak Corp.	404	A&W Restaurants, Back Yard Burgers, Beef 'O' Brady's, Ben & Jerry's, Blimpie's, Burger King, Camille's Sidewalk Café, Caribou Coffee, Carl's Jr., Cheeburger Cheeburger, Chili's, Cold Stone Creamery, Cosi, Denny's, Einstein Bros. Bagels, Extreme Pita, Hardee's, IHOP, Jamba Juice, KFC, Long John Silver's, McAlister's Deli, Moe's Southwest Grill, Nathan's, Noble Roman's/Tuscano's Italian Style Subs, Papa John's Pizza, Pizza Fusion, Pizza Hut, Quiznos, Raising Cane's, Round Table Pizza, Sbarro, Seattle's Best Coffee, Subway, Taco Bell, Tim Hortons, Togo's, Wendy's
9	Boddie-Noell Enterprises Inc.	347	Hardee's, Moe's Southwest Grill
10	Apple American Group LLC	336	Applebee's
11	Carrols Restaurant Group Inc.	315	Burger King
12	Strategic Restaurants Acquisition Corp.	297	Burger King, T.G.I. Friday's
13	A & A Restaurant Management Inc.	292	Jack in the Box
14	Wendfair Corp.	292	Wendy's
15	ADF Companies	290	Panera Bread, Pizza Hut
16	Bridgeman Foods/ERJ Dining LLC	276	Chili's, Wendy's
17	Kazi Foods Inc.	275	A&W Restaurants, Burger King, KFC, Long John Silver's, Pizza Hut, Taco Bell
18	United States Beef Corp.	274	Arby's, Taco Bueno
19	Pilot Travel Centers LLC	272	Subway, Wendy's
20	Fugate Enterprises	270	Pizza Hut, Taco Bell
21	Mason-Harrison-Ratliff Enterprises	259	Sonic Drive-In

RANK	NAME	UNITS	BRANDS
22	Sodexo Inc.	259	A&W Restaurants, Blimpie's, Burger King, Carl's Jr., Dairy Queen/DQ, DQ/Orange Julius, Einstein Bros. Bagels, Godfather's Pizza, Hot Stuff Foods, Jamba Juice, KFC, Manchu Wok, McAlister's Deli, Moe's Southwest Grill, Nathan's, NRgize Lifestyle Cafe, Papa John's Pizza, Pizza Hut, PJ's Coffee of New Orleans, Quiznos, Red Mango, Sbarro, Seattle's Best Coffee, Subway, Surf City Squeeze, Taco Bell, Wow Cafe & Wingery
23	Heartland Food Corp.	244	Burger King
24	Love's Travel Stops & Country Stores	238	Arby's, Baskin-Robbins, Chester's, Godfather's Pizza, Subway, Taco Bell
25	Richard Lawlor	236	Dunkin' Donuts
26	Pacific Convenience & Fuels LLC	233	Circle K
27	MUY Brands LLC	227	Long John Silver's, Pizza Hut
28	Southern California Pizza Company LLC	224	Pizza Hut
29	Dennis Rottinghaus	218	Subway
30	JRN Inc.	213	KFC, KFC/Taco Bell
31	Covelli Enterprises	203	O'Charley's, Panera Bread
32	DL Rogers Corp.	198	Sonic Drive-In
33	TA Operating LLC	191	A&W Restaurants, Burger King, Knights Inn, Pizza Hut, Popeyes Louisiana Kitchen, Quiznos, Rodeway Inns, Subway, Taco Bell, Taco Time, Tim Hortons, Travelodge
34	Kmart Corp.	184	Little Caesars Pizza
35	Stephen Williams	183	Dunkin' Donuts
36	Wing Financial Services LLC	177	Jackson Hewitt Tax Service
37	The Pantry Inc.	172	Bojangles, Chester's, Church's Fried Chicken, Dairy Queen/DQ, Mr. Payroll, Quiznos, Subway
38	Quality Dining Inc.	163	Burger King, Chili's
39	Tacala LLC	163	Sonic Drive-In, Taco Bell
40	BR Associates	162	Denny's, Long John Silver's, Wendy's
41	Border Foods Companies	161	Pizza Hut, Taco Bell
42	Sailormen Inc./Interfoods of America Inc.	160	Burger King, Popeyes Louisiana Kitchen
43	Apex Restaurant Management	157	Long John Silver's, Long John Silver's/A&W
44	K-MAC Enterprises Inc.	157	Golden Corral, Long John Silver's, Taco Bell, Taco Bell/KFC
45	JIB Management Inc.	156	Denny's, Jack in the Box
46	Falcon Holdings Management LLC	154	Church's Chicken

2012 Mega Franchisee Rankings, *continued*

RANK	NAME	UNITS	BRANDS
47	B & B Consultants Inc.	152	Sonic Drive-In
48	Hess Mart Inc.	150	Blimpie's
49	Sunshine Restaurant Partners LLC	150	IHOP
50	Davco Restaurants Inc.	145	Wendy's
51	RPM Pizza	145	Domino's Pizza/Pizzazz/C Store
52	Amerada Hess Corp.	143	Godfather's Pizza
53	Palo Alto Inc.	142	Pizza Hut, Taco Bell
54	PJ United Inc.	142	Papa John's
55	Cedar Enterprises	141	Wendy's
56	V & J Holding Companies Inc.	141	Auntie Anne's, Burger King, Häagen-Dazs, Pizza Hut, The Coffee Beanery
57	Restaurant Management Company of Wichita Inc.	139	Long John Silver's, Pizza Hut
58	Boyett Petroleum	138	Pacific Pride
59	Charter Foods Inc.	130	KFC, Long John Silver's, Long John Silver's/A&W, Pizza Hut, Taco Bell
60	Jerry Miller	130	Pizza Hut
61	Valenti Management	130	Chili's, Wendy's
62	America's Pizza Co LLC	127	Pizza Hut
63	RDSL Enterprises LLC	125	Jack in the Box
64	Donald Rottinghaus	122	Subway
65	Sun Holdings LLC	120	Burger King, Golden Corral, Popeyes Louisiana Kitchen
66	Wisconsin Hospitality Group LLC	120	Applebee's, Pizza Hut
67	MJKL Enterprises Midwest LLC/ LeVecke and Company LLC	119	Carl's Jr., Hardee's
68	Rage Inc.	117	Pizza Hut
69	The Scrivanos Group	115	Dunkin' Donuts
70	JEM Restaurant Group	112	Taco Bell, Pizza Hut
71	The Briad Group	106	T.G.I. Friday's, Wendy's
72	Midas Muffler Inc.	105	Midas
73	Sizzling Platter Inc.	105	Little Caesars Pizza

RANK	NAME	UNITS	BRANDS
74	Pepper Dining Inc.	104	Chili's
75	Great Lakes Quick Lube LP	104	Valvoline Instant Oil Change
76	Amrest LLC	103	Applebee's
77	Kaizen Restaurants Inc.	103	Burger King, Denny's
78	Nematzadeh Enterprises Inc.	103	Jack in the Box
79	Western Reserve Management Inc.	102	Wendy's
80	Charlie Hudson	98	Pizza Hut
81	Daland Corp.	95	Pizza Hut, Sonic Drive-In
82	DiPasqua Enterprises	95	Subway
83	W2005/Fargo Hotels (Pool C) Realty LP	95	Comfort Inn, Suites, and Hotels, Country Inns & Suites By Carlson, Courtyard By Marriott, Fairfield Inn/Inr & Suites, Hampton Inn/Inns & Suites, Homewood Suites by Hilton, Residence Inn by Marriott, Sleep Inn, Springhill Suites, Towneplace Suites by Marriott
84	William Walsh	95	Pizza Hut
85	James Gressett	93	Pizza Hut
86	Jan Companies	93	Burger King, Krispy Kreme, Popeyes Louisiana Kitchen
87	MC LLC	93	Jiffy Lube
88	Duke and King Acquisition Corp.	92	Burger King, Popeyes Louisiana Kitchen
89	Paradigm Investment Group	92	Hardee's
90	Wendelta Inc.	92	Wendy's
91	Yummy Seafoods LLC	92	Long John Silver's
92	Floyd Bergen	91	Pizza Hut
93	Andrew Rosen	90	Pizza Hut
94	Burgerbusters Inc.	90	Pizza Hut, Taco Bell
95	Thomas and King Inc.	90	Applebee's, Carino's Italian Grill
96	Zax Inc.	89	Zaxby's
97	JEM Restaurant Group	87	Pizza Hut
98	The Napoli Group LLC	87	McDonald's
99	Vienna Tax Service Ltd.	86	Jackson Hewitt Tax Service

Source: FRANdata

BY KERRY PIPES

You're Hired!

Hiring experts share insights on best practices

You search and screen and interview for the best employees. Days pass, sometimes weeks, as you narrow down your choices (and continue to operate understaffed). You pull the trigger, make the hire, and within days you realize you've made a mistake—sooner if your new hire never even shows.

Let's face it, hiring the right employees is the bane of existence for franchise operators. Yet without top-performing front-line employees and unit-level managers—the face of your franchise—you will not be as successful as you could be. Hiring right often seems a mysterious, unachievable goal lacking any chance of long-term success.

"The challenge is that we really want the cream of the crop and sometimes we end up with the cream of the crap," says Bill Wagner, CEO and co-founder of Accord Management Systems, a company that specializes in behavioral and hiring consulting.

You're Hired!

Hiring right is an ongoing challenge for multi-unit franchisees, but according to the experts we spoke with, there is hope—if you employ the right strategies, systems, and tools, and follow through consistently.


Bill Wagner

Get the right tools for the job

Hiring right requires the right tools. More and more, these tools can be found in automated, web-based systems, sometimes called talent management systems (integrated software packages that handle all the essential components not only for hiring, but also for tracking and managing employees after they've been hired).

Automated hiring tools will never replace person-to-person screening and interviewing, but they have become one of the most efficient ways to hire the best employees, says Blake Helppie, CEO of JobApp Network, a company that helps businesses improve the quality of each hire.

"The best option is to use an automated hiring solution that can streamline the application process, administer and score validated and compliant job-related personality assessments, manage background checks, process employee tax credits, onboard new hires, and upload directly to your payroll/POS/HRIS," says Helppie.

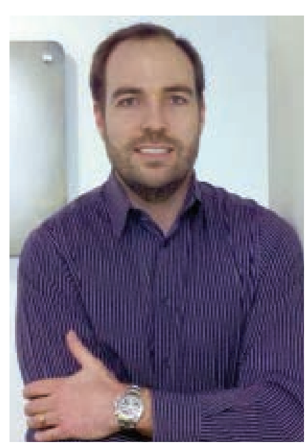
For employers looking to improve and streamline their hiring process, an abundance of online assessment tools is available. Helppie says these sourcing and screening tools can help attract and identify the right talent for any organization. Verification tools can reduce the time for background checks, and onboarding tools can help new employees become more productive sooner.

"No company that relies on employees to drive their business should hire without the assistance of pre-employment behavioral assessment tools," says Steve Waterhouse, founder and president of Predictive Results, a PI Worldwide member firm that provides talent management tools and training. He says today's tools are proven to help businesses select higher-performing employees more likely to stay on the job, achieve greater success, and be less likely to get hurt. These tools are designed to identify employees who will drive sales, deliver top-drawer customer service, and provide metrics important to improving your operation.

Says Waterhouse, "This is how you put the right people in every position." And when it comes to knowing what type of person and skill set will succeed in each of your hourly positions, Waterhouse boils it down to six criteria: skills, experience, education, knowledge, capability, and behavioral fit. Call it a "profile" of your perfect employee.

> **"The challenge is that we really want the cream of the crop and sometimes we end up with the cream of the crap."**
>
> *—Bill Wagner*

Combining applicant tracking software with behavioral assessments in a web-based application allows multi-unit franchisees to send candidates to a single site and collect applications electronically. Hiring managers can then select the top prospects, send follow-up emails, invite candidates for further testing or interviews, and track the entire hiring and onboarding process.


Blake Helppie

What's more, the right technology can create an organized hiring process that gives decision-makers the knowledge—and time—they need to make the best choices. "You don't want your store managers making rushed decisions when it comes to hiring," says Joe Bocian, account executive for Snagajob, a company that provides workforce management solutions for hourly employers.

Getting started

A good hiring system that relies on solid technology tools and clearly defined hiring goals can make a big difference in any organization. Whether you're using the latest technology or still relying on pen and paper, building an effective hiring process should begin with standardization. The goal is to create a hiring system that can be implemented effectively and replicated over time.

The first step involves screening and pre-qualifying candidates. Helppie summarizes the essential ingredients of the screening/pre-qualifying process as follows:

1. *Pre-qualification:* Do they meet the practical aspects of the specific job—e.g., days of the week, shift, wages, type of work, part- or full-time, etc.?

2. *Position fitness:* This includes skills, experience, aptitude, and work habits. How well will they be able to do the job? How many jobs have they had in the past 2 years? If a cook, are they ServSafe-certified? How much weight can they lift? What type of retail experience do they have?

3. *Personality assessment:* How likely is someone to be successful in your company? There are many variations of these tests, but what matters to an employer is finding a validated and compliant assessment method or tool that focuses on the core competencies that drive success in their business, e.g., positive sales attitudes, persuasiveness, energy, initiative, good

judgment, and tolerance for frustration.

One area many operators miss is in not creating a solid employee position profile. From front-line employees to unit and regional managers, there is a particular type of person and skill set that gets each job done in your units. Do you know what that person looks like, on paper and in person?

Steve Waterhouse

Profiling the perfect candidate boils down to three key areas—company culture, benchmarking top performers, and measuring results—says Rebecca Monet, president of Proven Match, a company that helps determine compatibility and predict the performance of prospective franchisees as well as their key employees. "Company culture is looking for compatibility, sustainability, retention, and trainability. As with the franchisee, employees should also share the company's values and mission," says Monet.

Next is benchmarking top performers by determining what attributes and skill sets successful employees have in each specific job or area. "If this is not doable

"No company that relies on employees to drive their business should hire without the assistance of pre-employment behavioral assessment tools."

—Steve Waterhouse

internally, build a reference model based on best practices shared within the franchise organization," she says.

Third, measure and assess results. As a company evolves, says Monet, so does the role of each employee. Initial and key hires will require special attention because they set the pace for the company. Keep a close eye on values, work style, and core competencies.

Expediting the process

Gary Walstrom, founder of Culture Index, a hiring consulting and technology company, has been using assessment tests for more than 35 years, helping franchisees build their systems using different hiring tools. Many of today's automated and online tools are good, but Walstrom cautions multi-unit operators to "make sure they come with training and support." If you don't understand something about the technology, make sure there is someone at the vendor easily available to work with you.

Another advantage in using technology in the hiring process is speed: matching employers with employees quickly.

10 Tips to a Better Hire

Representatives we interviewed from companies specializing in helping business operators hire smarter identified characteristics of the best hiring strategies and processes. Some of these may seem like no-brainers, while others may provide an "Aha!" moment. Implementing these practices into your hiring process will generate improvements in the performance of both your front-line employees and your bottom line.

1. Use talent management systems. All types of screening and evaluation tools can be found in today's automated, web-based systems and strategies.

2. Don't hire out of desperation. If you've lost an employee and need to fill the position yesterday, don't hire the first applicant in the door. Remember the old adage, "Hire slowly, fire quickly." In the long run you'll be glad you did.

3. Carefully select and develop a standard set of pre-screening and interviewing questions, and stick with them. Be consistent with your questions during the interview and take good notes. Use the same set of criteria to evaluate and assess every candidate.

4. Create a hiring system. Know who you are looking for, what qualities they must possess, and where you can find them. Your ideal candidate is your existing top performer. If possible, consider using outside assessment consultants and other third-party suppliers that focus on hiring, and who can help you build a system appropriate for your organization.

5. Don't go it alone. Have more than one person involved in the interviewing process. At least one unit-level manager and one front-line employee (whenever possible, from the area you're hiring in) should be involved at some point.

6. Paperwork. Dot your i's and cross your t's. Take your time and never cut corners on the I-9 process. The average ICE audit fine is $100,000, and some people have even gone to jail. Think automation and strong audit processes.

7. Check references. It sounds elementary, but too many overlook this fundamental.

8. Prioritize your best candidates. Hire fast and get them off the market before they take a job with someone faster than you are at pulling the trigger. Remember, the applicant is just looking for a job—make it your job.

9. Don't hire with your gut. Be objective and ensure any decision is based on the needs of the job and the applicant's ability to fit that job description.

10. Standardize and document every step. This includes the process flow and interview questions. Create an audit process for the model. And be willing to adapt your model when needed.

"Many hiring processes take too long," says Walstrom. "Technology can help expedite the process because you need employees now and job seekers need jobs now." Done correctly, he says, "In most cases there's no reason you can't have an applicant walking onto the job within 72 to 96 hours from the time the application is submitted."

In-person interviewing is still a critical component of hiring right, but it can be difficult to execute well. Walstrom and others recommend using a thorough, concise series of open-ended questions. The goal is to get the candidate to open up about previous jobs, work experience, and personality traits.

Joe Bocian

"I recommend using what I call a five-part interview question," says Walstrom. "Rather than just asking *How did you like your last job at Burger King?* ask things like: *What kind of work did you do? What did you like most about the job? What did you like least about the job? Describe working with your manager.*"

"You don't want your store managers making rushed decisions when it comes to hiring."

—Joe Bocian

Helppie recommends developing interview questions by specific job position and the needs and requirements of each. He says these questions should be used consistently with every candidate. In addition, hiring managers can use candidate-specific probes based on assessment results to investigate any areas of potential concern and to confirm areas of strength. "While automated hiring solutions can pre-screen to get you to the top 20 percent of candidates quickly, there is no substitute for a good behavioral interview," he says.

Beyond developing a well-thought-out list of interview questions, Walstrom suggests that multi-unit operators should have one really good interviewer at each location. "Not all franchisees know what it takes to succeed in every position in their units," he says. "Find individuals on your crews who know the jobs and provide them with the tools, resources, and freedom to do the interviewing."

Best practices

"Hiring right means taking the guesswork out," says Monet. When hiring key employees, franchisees cannot be subjective in their approach,

There's an App for That!

Hiring by phone just got a lot easier. Snagajob recently launched a new iPhone app that lets franchise hiring managers find and hire new hourly employees on the go. The Snagajob ForEmployers mobile Hiring Manager app provides hourly employers with easy access to detailed information on applicants and lets users instantly filter to the best candidates on a simple, streamlined dashboard—right in the palm of their hand—and then call or email job candidates directly from the phone.

Automating Tax Credits

Automating the hiring process has a number of benefits for multi-unit franchisees, from speeding the hiring process to helping identify higher-quality candidates. But don't overlook technology's ability to help find tax credits along the way.

JobApp Network was one of the pioneers in screening for tax credit eligibility during the job application process. CEO Blake Helppie says JobApp is still the only hiring solution that, by virtue of its phone-based application process (provided along with its core web product), can screen individuals who don't have web access for tax credit eligibility. He says individuals eligible for tax credits are about twice as likely to apply by phone as those not eligible. "This is what one would expect, quite frankly, given that most tax credit eligibility 'buckets' are highly correlated to economic factors, like recipients of food stamps and other government assistance," he says.

Snagajob offers a tool that not only captures the federal HIRE Act and Work Opportunity Tax Credit (WOTC) programs, but also screens for more than 172 state and local hiring incentive programs that can put money back in your pocket. Here's how it works.

As part of the job application process, candidates complete a tax-screening questionnaire that varies based on the address of the candidate and hiring location. Eligibility results are then displayed for the hiring manager, along with the pre-populated tax credit forms. The hiring manager then has the eligible new hire sign the forms and submits them.

Another benefit is maximizing your potential tax credits. Since 100 percent of candidates completing the online application are presented with the tax credit questionnaire, the system can also easily capture lucrative retroactive credits from the beginning of the year.

Rebecca Monet

she says. Thus, to reduce recruiting, hiring, training, and management costs, multi-unit operators should employ a structured interviewing process and an objective profiling tool. A number of best practices have been developed over years of time and trial (see sidebar, 10 Tips to a Better Hire).

Hiring is often driven by emotions, which can be difficult to completely eliminate from the process. Maintaining objectivity, standards, and consistency is essential. Structure a process to ensure that all candidates meet minimum requirements—and that your managers use to identify top candidates based on the key job criteria and core competencies for success, says Helppie. "With good reporting tools in an automated solution, you can review the quality of hire that individual managers are making and coach them into improving," he says.

After all is said and done, the goal is to identify and hire the best employees for each role in your organization. Doing so will benefit both you and the people you hire. To succeed in this, start by creating a profile of the employee you're looking for, says Waterhouse. "Assess your top performers and define your ideal target model," he says. Understand the ideal candidate for each position in terms of skill, knowledge, education, and behavioral style. "Prioritize top candidates and interview them quickly and effectively—and be willing to say no to the candidates who don't fit your criteria, even if you like them," he says.

Be sure to refine your model as your experience and needs change, and be willing to grow from your mistakes. "As you hire employees, be open to learning more about what you may be overlooking in your process, things you should be doing but haven't been. Then make the adjustments," says Walstrom. "Great employees work for good companies and good companies have great employees." If that doesn't describe your company, it's time to work harder at hiring right. MUF

Gary Walstrom

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BY EDDY GOLDBERG

Best OF THE BEST

Franchisee of the Year winners tell how they do it

Franchisors recognize the best performers in their system each year with a Franchisee of the Year award. We spoke with four recent winners—different-sized, in different industries, and in different parts of the country.

Common denominators among these winners include excelling in the following areas: 1) financial (sales/revenue volume, profitability), 2) adherence to system and operational standards, 3) client/customer satisfaction, 4) HR (employee training, customer service), 5) contributions to and participation in the system (mentoring and leading), and 6) community involvement and service. And one important trait they all share is their passion—for their business, their brand, and their people.

Alan and Harriet Bleiweiss

SIGNS NOW

"Re-peat" Winners

It's two years in a row now for Alan and Harriet Bleiweiss, owners of the Signs Now center in Hollywood, Fla.—the first time Signs Now has had a Franchisee of the Year "re-peat." The couple, who celebrate their 24th wedding anniversary in April, met at their 10-year high school reunion. Yes, met: they didn't know each other in high school.

Their business had a slow start too before turning successful: when they opened their Signs Now store in August 2004, repeated hurricane warnings shut them down for all but 10 of their first 30 days. They quickly bought a generator and it's been full speed ahead ever since.

They had no previous experience in the sign business—she was a hotel catering manager and he was a vice president of development for a nonprofit—nor had they ever worked together. But they worked hard and learned fast. "We came into this business with the will and the interest to succeed," says Alan. "We put a lot of effort into our process, how we go about approaching customers."

He took the corporate training while Harriet managed the homestead. "They teach you some basics and do the best they can. But once you get into the field and start working with people, that's where you really learn," he says. In the beginning, he walked shopping centers, introducing himself to the community, dropping cards, all very grassroots. Today, he says, "A lot of what we do is referrals, a lot of return work."

In addition, they employ direct mail, e-blasts, and, of course, vehicles wrapped with lettering that serve as moving billboards. They're also involved with nonprofits: kids in distress in Bro-

(L-R) Michael Marcantonio (Allegra Network President and CEO), Harriet Bleiweiss, Alan Bleiweiss, Steve White (Allegra Network COO).

ward County, churches, synagogues, golf tournaments, and more. No TV or radio, though.

"You can't wait for your phone to ring or someone to walk in your door," says Alan. "You have to be out there, aggressive, work hard, stay current on technology, stay current on pricing, and produce a good product."

Social media has been a mixed bag for the couple. Harriet attended a Facebook class, but that turned out to be unproductive. For their business, "I think it's a huge waste of time. Google AdWords has been a much better thing for us. As soon as we got involved, emails started coming and the phone started ringing," says Alan. "Google is great. I work directly with them and I've seen results. We got two inquiries today we wouldn't have otherwise."

Their normal clients are small to medium-sized companies that can't afford the big marketing firms. "So we step into that role," says Alan. "We don't experience our clients as sign buyers, but as marketing partners. We work very closely with them to help them stand out and hopefully succeed. We want them around for a long time—their success is ours. It's not just a commodity."

To accomplish that, they have their own graphic designer on staff, says Harriet. They also take on jobs other franchisees would never think of taking on, like large construction projects or hotels. "Big projects bring bigger profits," says Alan. "We've done signs 55 feet high by 35 feet wide on the sides of garages." And, since print machines max out at 16 feet, these signs must be seamed and put together.

Twice a year they meet with their peer performance group of about half a dozen other operators with similar volume and problems to brainstorm solutions. The meetings are held at each others' stores, where they can see differences, meet the staff, and share financials in their search to improve their businesses.

Winning the award in consecutive years has given them added credibility among their peers, and they often receive a query or phone call if someone is looking for help. "We'll spend some time, send them information, and point them in the right direction," says Alan. They also participate in the brand's list-serv discussions. "We jump in with our experience," says Harriet, who adds that new and potential franchisees with questions are often sent their way. Such is the price of success.

Founded in 1986, Signs Now provides professional, high-quality global sign and graphics products for a diverse clientele. The brand has nearly 200 franchise locations in the U.S., Canada, and the U.K.

Jim Snyder
DONATOS PIZZA

It's All About "Best"

Jim Snyder, who operates a Donatos Pizza restaurant in Bellefontaine, Ohio, also won his second Franchisee Partner of the Year award—18 years after winning his first. He also won the company's Promise Light Award in 1994, given to franchisees who best represent Donatos' mission to promote goodwill through products, service, principles, and people.

"I don't know that I do anything different today than I did in 1993," Snyder says. "Every single day I'm out there to build on the Donatos promise: 'To serve the best pizza, and make your day a little better.'"

Before becoming a franchisee, he worked for Sears in the appliance service business for nearly 30 years in a variety of different roles. "I reached a point of burnout and was looking for something else to do. Donatos had just started announcing they were going to do franchising. I decided I would look into it."

Shifting to franchising and giving up a weekly paycheck was a "huge step," says Snyder. "I had a 27-year security blanket on top of me with benefits. It was a tough decision to walk away from that. I took the plunge and laid my money on the line. It's been very rewarding in many, many ways—the freedom that I have, the flexibility of owning my own company, piloting my own ship."

The customer service skills he acquired at Sears have been a big boost to his success with Donatos. "I'm concerned with impressions—when they open the box, in our dining room, or the cleanliness of the store. Everything, all bundled up, has to be right," he says. "If the customer has a great experience, chances are they're going to come back and bring other people."

For Snyder, it's all about being best. "Best Quality Pizza Group is the name of my company. I came up with that name before I turned the key in the door or made my first pizza." Although he has one store today, he did have two for several years, one hour apart, before deciding to concentrate on a single store. "I felt like I wanted to put all my eggs in one basket," he says. And boy, is it working for him.

Many of his customers work at the nearby Honda plant or local suppliers and have a limited time for lunch. So Snyder began offering a lunch buffet with eight different pizzas. The idea quickly took off. The buffet "has been a really excellent tool," he says. "They only get half an hour for lunch, so they

Jim Snyder *Courtesy Bellefontaine Examiner* want a product that's ready. The neat thing about it for us is that it's prepared ahead. We just load it, which frees us up so we can mingle with the guests. Getting full interactions with guests is a real positive. It's one of the things my store has become known for."

Local insurance salesmen don't book any appointments on Wednesday night (buffet night), and local sports teams and families are frequent visitors, he says. It's also a great marketing tool since customers can try new items they otherwise wouldn't take a chance on.

"Sampling is so worthwhile. I'd almost rather sample than do a coupon drop," he says. "It's an opportunity to get something they wouldn't necessarily order—like a Hawaiian pizza with almonds and cinnamon. They wouldn't normally try those, and my sales for that one are higher than average." And when Donatos rolls out a new product, he puts that on the buffet to build awareness.

Community involvement is a huge part of his success in Bellefontaine. "I'm involved in any way I possibly can—local schools, fire prevention with the fire department, and Halloween contests for pumpkin decorating where I'm there as a judge. I get my face known," he says. Marketing is "something I have learned to love and thrive on," says Snyder. "If you're not outside of your store you're missing opportunities."

And it's paying off at the register. "We're all rocked by the economy today," he says. "For the most part over the 19 years I've been doing this my sales have inched up a little bit every year." And despite the slowdown at the local Honda plant following the tsunami in Japan, his sales were up about 7.4 percent in 2011. "We're quite proud to say we're accomplishing that in this economy."

Founded in 1963, Donatos Pizzeria has nearly 200 restaurants in 5 states and is approaching $200 million in system-wide sales.

Jeff Cohen & Raffi Iskenderian

SHELFGENIE

Dynamic Duo

After opening their doors only two years ago, Boston-area ShelfGenie franchisees Jeff Cohen and Raffi Iskenderian were named Franchisee of the Year. "Raffi and I worked together in financial services, financing for home improvement contractors. We saw the good, the bad, the ugly in the home improvement space," says Cohen. And the duo believed they could do some good.

Before financial services, Iskenderian had been a licensed contractor and Cohen had spent about 10 years in strategy consulting. "Raffi had a much more entrepreneurial background," says Cohen. "We both ended up getting MBAs along the way, so we had a good amount of on-the-ground experience coupled with institutional training. It's been a really good mix for us."

Cohen says he's primarily responsible for pre-sales activity, while Iskenderian handles everything that happens afterward. "I have sales, marketing, accounting, finance, and franchisor relations, and Raffi manages installers, product quality, interacting with the factory, measurements, and follow-up. He probably has done more installations than anyone in the system. We're big enough now so he's training other installers for ShelfGenie."

Jeff Cohen and Raffi Iskenderian

The partners financed their venture from their personal funds, and got an SBA loan "somehow," says Cohen. Today they have five territories, a couple of employees, six independent designers/sales people, and four independent installers—and are looking at ways to get bigger: by expanding geographically, or by adding products, either through ShelfGenie or adding complementary business lines such as refinishing cabinets, tiling, bathrooms, etc.

"We're aggressively trying to grow our territory, spending a lot on marketing and getting the word out," says Cohen. They're doing a lot of mass marketing, including TV, newspapers, Valpak, direct mail books, and shows. One marketing challenge, he says, is "People don't know you can retrofit your existing cabinets, so it's educational."

They must be doing something right—a lot, in fact. Cohen is the Northeast regional leader for the brand's monthly meetings, and since winning the award he's been fielding more calls from other franchisees asking about their marketing practices.

Entering their third year, the partners are leveraging referrals and testimonials from their customer base. "We're just on the cusp of making a big dent there," says Cohen. "If you give a customer a wonderful experience, they'll be willing to give you more." But, he cautions, "That only works if they see great value the first time."

One plus, he says, is that "The franchisor has a website with an interactive showroom, before and after pictures, so we're leveraging a lot of that from the franchise system." Also, he says, "We have a wonderful relationship with the franchisor, which allows us to give a lot of helpful, constructive input."

The management team at Shelf Genie was another plus for the partners. "They shared a lot of the same values and philosophy we had: hungry, aggressive, honest, ethical, very

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analytical as well having big dreams. If you're not dreaming big, you're not going to get big."

Marietta, Ga.-based ShelfGenie designs, builds and installs custom-built Glide-Out shelving systems that fit into existing cabinets in the home. The company expected to grow to 150 to 175 franchises by the end of 2011.

The Avalanche Group

TWIN PEAKS

Mamma & Papa University Grads

The Avalanche Food Group turned in a gold medal performance in 2011, earning them the Franchisee of the Year Award from Twin Peaks. At press time, Avalanche (composed of three brothers and a close family friend) had one Twin Peaks location open near Houston since August 2010, and a second scheduled to open this past December. The group plans to open five more Twin Peaks restaurants over the next six years in the Houston area.

"We're no strangers to the restaurant industry," says Ricky Rosa, company COO and the youngest of the three brothers. Their parents, originally from Sicily, emigrated to Brooklyn, and in the early 1970s moved to Houston. "Everywhere they landed on their feet, they decided to have a child," he jokes. The eldest brother, Joe (CFO, real estate, finance), was born in Sicily; middle brother John (director of operations) in Brooklyn; and Ricky in Houston; and Andrew Thomas is the CEO, responsible for branding and marketing.

(L-R) Joe Rosa, Andrew Thomas, Ricky Rosa, John Rosa

"As brothers, we all grew up in the restaurant business, from dishwasher to busboy. Mamma and Papa University—that's where we were grounded, that's our roots," says Rosa. Their parents operated an Italian restaurant in the 1970s and '80s, moving from casual to white tablecloth. For nearly 20 years, 1988 to 2006, their father operated an Italian restaurant in Houston, but… "My father was diagnosed at an early age with Parkinson's, which left my brother and me running the restaurant," he says.

Meanwhile, they were following their own entrepreneurial juices. In 2000, Ricky, along with John, opened a pizza place in the Houston suburb of Sugar Land. In 2008 they opened a Mexican restaurant in Needleville (pop. 2600), a small farming town in Fort Bend County, about 40 miles southwest of Houston.

In November 2009, they signed on with Twin Peaks and opened their first store in Webster, 3 miles from NASA's Johnson Space Center. "It's going really well," says Ricky, who was busy preparing to open their second Twin Peaks restaurant in mid-December, about 4 miles from Reliant Stadium, home of the Houston Texans football team.

Sports and community involvement have played a large role in Ricky's and John's lives, both personally and professionally. As a teenager, Ricky spent 10 years as a ballboy and equipment assistant for the Houston Rockets during the Hakeem "The Dream" years, when the team won two NBA championships (1994 and 1995).

He's continued to combine his passion for sports and restaurants. After his relationship with the Rockets, Ricky and John got involved with the Houston Oilers football team from 1993 to 1996, when the team left Houston to become the Tennessee Titans. In 2000, when the Houston Texans came into existence, a friend in the new team's marketing department asked if they wanted to get involved. Duh. Since 2002, when the team joined the NFL, they've been shuffling in the footballs to the refs—and in 2004, they got to work the Super Bowl (New England 32, Carolina 29).

Do they leverage all that? "Absolutely," he says. Not only do they wear the orange vests and hear the coaches and players, they network informally through the locker room. They also host the Danieal Manning ESPN radio show every Monday night from their Twin Peaks store in Webster—complete with Monday Night Football–related specials.

Then there's the Brothers Factor. "The chemistry we have is what makes us successful," he says. "First of all, we communicate. Second, we understand each others' roles and differences." That means disagreeing, criticizing, and in the end respecting the decisions each makes.

On the employee side, "We have a great team, and we open our restaurants around people. We identify the right operators and managers and build accordingly. It's a group effort that takes a whole team. It starts at the top with the Twin Peaks concept," he says. "Who you bring in makes or breaks the company. When you hire the best you don't have to worry as much about managing. They manage themselves, which allows us to focus on execution and the quality of the brand."

As an employer, "You take care of the people who take care of you. You have to have your employees buy in to you as an individual. At the end of the day, you're the company," he says. "We take great pride in brand and in the restaurants we've operated. At the end of the day it's your integrity as individuals, as people, and as a business."

Founded in 2005, Dallas-based Twin Peaks has 16 restaurants, 10 in Texas and the rest in Kansas, Nebraska, Oklahoma, and New Mexico. MUF

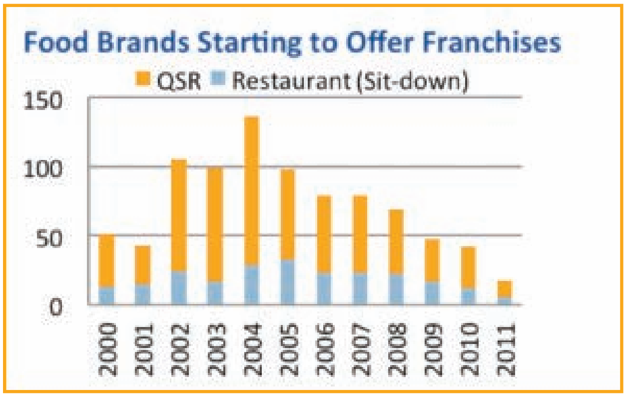
BY EDDY GOLDBERG

Food: By the Numbers

Food—fast, slow, casual, takeout, sit-down, delivery—is by far the largest single sector in franchising. One look at our Mega 99 list of the country's largest franchisees (page 46) shows their choice of brands dominated by food, primarily QSR. Beyond the sheer size of this sector, changing consumer tastes are spurring the creation of new brands, even in a belt-tightening economy. We asked two well-respected market researchers—Technomic and FRANdata—for data that would provide a big picture overview of the franchised food segment—where it's been and where it might be trending.

FRANdata: Tracking Food Brand Growth

As of 2011, there are about 1,200 franchised food brands operating in the U.S.; roughly two thirds began offering franchises in 2000 or later. By far, the largest segment in food is QSR, which accounts for 92 percent of franchised units in the sector.



Between 2004 and 2010, the number of franchised food locations increased at a compound annual growth rate (CAGR) of 4% to almost 160,000. Brands selling baked goods grew the fastest at a CAGR of 8% over the period, followed by sit-down restaurants (4%), brands selling fast food (3%), and brands that offer frozen dessert products (1%).

QSR

• **Baked Goods—**As of 2010, the largest baked goods franchise brand was Dunkin' Donuts with 5,678 franchised units. Brands that act more like distributorships also have a large market share in the franchised baked goods space. One example is Sara Lee Distribution with more than 1,500 franchised businesses. Other big players include Panera Bread (more than 750 franchised locations) and Tim Hortons (close to 600).

• **Fast Food—**As of 2010, Subway remains by far the largest system in the U.S. with more than 24,000 locations, followed by McDonald's (close to 12,500), Burger King (6,351), and Pizza Hut (5,554).

• **Frozen Dessert—**As of 2010, the largest franchised frozen dessert brand in the U.S. was Cold Stone Creamery with close to 1,200 franchised locations. Baskin-Robbins ranked second, just five units shy of 1,000. Rita's Italian Ice and Dairy Queen Treat Center each operate more than 500 franchised units. These large brands hardly grew over the 2008 to 2010 period; in fact, Cold Stone and Dunkin' Donuts shed some franchised units.

Sit-Down Restaurants

The largest sit-down restaurant concepts include Applebee's with more than 1,500 franchised locations in the U.S. Next are Denny's with more than 1,300 and IHOP with more than 1,100 locations (both are owned by DineEquity).

Technomic: Tracking Food Brand Sales

The following are menu segments expected to exceed the industry's overall growth rate in 2011 (which Technomic is currently forecasting at a nominal 2.5%).

Limited-Service Segments

• **Asian—**Granted we are starting from a very small base, but we see opportunity in Asian limited-service chains, particularly fast-casual. Panda Express (QSR) is the leader of the segment, and it's been improving consistently. Many smaller chains are also succeeding, and they don't seem to be taking share from other Asian chains (though possibly from Asian independents). It's worth noting that most of these concepts are not strictly Chinese.

• **Bakery Café—**Panera Bread is the largest player and a steady grower. Regional brands like Paradise Bakery & Café (which Panera owns) and Le Pain Quotidien, as well as smaller concepts focused on food quality, local sourcing, or being the neighborhood gathering place, are holding their own as well, so we expect the segment to see better-than-average growth.

• **Beverage—**Starbucks is the driving force of this segment. But plenty of other coffee chains are seeing success, from larger players like Caribou to smaller upstarts like Biggby. A balance of quality, convenience (including speed of service), and in-

Technomic Top 500 Share of Industry Sales by Menu Category

Limited Service

Menu Category	Total Industry Dollar ($MM) 2010	Total Industry Dollar ($MM) 2009	Total Industry % Growth*	Total Top 500 Dollar ($MM) 2010	Total Top 500 Dollar ($MM) 2009	Total Top 500 % Growth*	% Share
Hamburger	$65,397	$64,398	1.6%	$64,863	$63,864	1.6%	99.2%
Pizza	29,516	28,591	3.2	18,186	17,373	4.7	61.6
Other Sandwich	23,163	22,831	1.5	19,954	19,653	1.5	86.1
Chicken	16,265	16,110	1.0	14,602	14,262	2.4	89.8
Beverage	15,845	15,208	4.2	10,998	10,236	7.4	69.4
Mexican	12,991	12,486	4.0	12,249	11,744	4.3	94.3
Donut	7,667	7,336	4.5	6,736	6,386	5.5	87.9
Frozen Desserts	6,017	6,127	-1.8	5,104	5,156	-1.0	84.8
Bakery Café	4,890	4,748	3.0	4,773	4,634	3.0	97.6
Family Steak	3,266	3,329	-1.9	2,975	2,987	-0.4	91.1
Asian	3,076	2,904	5.9	2,426	2,219	9.3	78.9
Cafeteria/Buffet	2,780	3,107	-10.5	1,818	1,947	-6.6	65.4
Subtotal	**$190,874**	**$187,175**	**2.0%**	**$164,684**	**$160,463**	**2.6%**	**86.3%**
All Other[1]	3,884	4,000	-2.9	2,956	3,008	-1.7	76.1
Total Limited Service	**$194,758**	**$191,175**	**1.9%**	**$167,639**	**$163,471**	**2.6%**	**86.1%**

Full Service

Menu Category	Total Industry Dollar ($MM) 2010	Total Industry Dollar ($MM) 2009	Total Industry % Growth*	Total Top 500 Dollar ($MM) 2010	Total Top 500 Dollar ($MM) 2009	Total Top 500 % Growth*	% Share
Varied Menu	$41,175	$41,953	-1.9%	$26,536	$26,783	-0.9%	64.4%
Family Style	34,044	34,251	-0.6	13,099	13,201	-0.8	38.5
Asian	15,277	15,025	1.7	1,744	1,692	3.1	11.4
Italian	14,803	15,031	-1.5	7,085	6,992	1.3	47.9
Steak	13,611	13,477	1.0	8,337	8,160	2.2	61.2
Seafood	8,342	8,516	-2.0	4,688	4,677	0.2	56.2
Mexican	5,827	5,976	-2.5	1,985	1,991	-0.3	34.1
Subtotal	**$133,079**	**$134,229**	**-0.9%**	**$63,474**	**$63,496**	**0.0%**	**47.7%**
All Other[2]	33,300	34,360	-3.1	2,885	2,842	1.5	8.7
Total Full Service	**$166,379**	**$168,589**	**-1.3%**	**$66,359**	**$66,338**	**0.0%**	**39.9%**
Total	**$361,137**	**$359,764**	**0.4%**	**$233,999**	**$229,809**	**1.8%**	**64.8%**

**Versus prior year in nominal terms [1] LSR All Other includes: Bagel, Barbecue, Chili, Italian, Other Ethnic, Salad, Seafood, Snack and Specialty [2] FSR All Other includes: Barbecue, Other Ethnic and Specialty*
Source: Technomic, Inc.; company reports

store experience seems to be driving growth. Beyond coffee, Jamba Juice is the leader, and has cultivated quite a following among young people.

• **Hamburger—**McDonald's dominates the segment, so it will perform as McDonald's does. However, fast-growing players such as Smashburger, Fatburger, and Five Guys are also contributing. We still see plenty of opportunity for fast-casual burger brands, which account for only about 3 percent of limited-service burger-concept sales.

• **Mexican—**Taco Bell is the largest chain, but number-two Chipotle Mexican Grill is a key growth driver. Competitors like Qdoba and Moe's Southwest Grill continue to do pretty well, but we've been watching a lot of emerging chains with selling points such as irreverence (like Freebirds), authenticity (like Cafe Rio), and fish tacos (like Chronic Tacos).

• **Pizza—**Pizza Hut, Domino's, and Papa John's together make up about a third of the segment's sales. We've been watching emerging chains that have a point of differentiation such as take-and-bake, wood- or coal-fired preparations, or a focus on healthy or local ingredients.

• **Sandwich—**Subway dominates this segment. Among the national chains, results should continue to be mixed. For example, in 2010, Jimmy John's and Jason's Deli had nice systemwide sales increases, and Arby's and Quiznos did not. Breakfast menus will help build 2011 sales in the segment, as will growing chains like Firehouse Subs and Jersey Mike's. MUF

BY DAVID ELLIS

Counter-Measures

Protecting your customers' credit card data

There was a time when a hacker needed exceptional computer skills to breach a system. Only the most talented and experienced computer users could successfully bypass even the most minimal security provisions. Sadly, those days are gone. Recent investigations have revealed a disturbing trend: the availability of readily accessible hacking-made-easy tools has swelled the ranks of effective hackers. Now, an amateur with a grade-school computer education can often hack a poorly defended business network in minutes after downloading a free hacking template.

This alarming news should serve as a wake-up call for franchisees to increase their IT security vigilance. Novice hackers everywhere are now standing on the shoulders of computer geniuses, giving them the expertise to hack into systems and steal sensitive information that was previously beyond their reach.

A disturbing trend

Internet criminals already use a wide variety of hacker tools in their efforts to steal your sensitive information. On a recent compromise investigation, our forensic team found a particularly troubling hacker tool. After gaining access to the victim's network (through insecure remote access) the hacker installed a template that was downloaded from the Internet. This template contained preconfigured applications designed to "walk" the attacker through the steps of hacking the network. The template included features such as dropdown boxes that prompted the user to choose the desired technique to crack passwords, and the method to install a "backdoor" to enable the hacker to easily return to the compromised system at their pleasure. No longer do hackers need to write long strings of complicated code; rather, they simply make their selections as if ordering Chinese food from a menu.

Who uses hacking templates?

Because they lack the technical expertise to write their own hacking code, or scripts, novice hackers (called "Script Kiddies" or "Skiddies") rely on sophisticated templates that contain pre-made exploit code. Because of the rising availability of these packaged scripts, the number of hackers attempting to illicitly access your network is growing rapidly. Even though these hackers may be amateurs, their success rates are increasingly high, largely because small merchants and franchisees often lack the substantial perimeter defenses to keep them out.

Kiddie protection

Make certain your firewall is doing its job. In addition to filtering inbound system access, it also needs to protect your credit card processing environment from the rest of your network. If you or your employees visit Facebook, order uniforms, or do anything online unrelated to your payment application, your firewall must segment your payment application from all other devices that connect to the Internet. By segmenting (or quarantining) your payment-processing environment, you create a "safe zone" that limits the opportunity for hackers to get to your customer credit card information.

Firewalls can tell a story

Forensic investigations frequently reveal a consistent problem: a lack of logging. Most merchants are unaware that when they unbox their new firewall (or any Windows system) the device is not automatically set up to record activity logs. Firewall logs allow you to monitor attempts to access your network, and they can be an early-warning system that your network may be under attack. Unlike e-commerce environments where customers access merchant servers from infinite IP addresses, franchisees can configure the segment of their firewall that protects credit card information to communicate only with the payment processor. The Payment Card Industry Data Security Standards (PCI DSS) require merchants to maintain at least 90 days of firewall logs stored *on their system*, and 12 months of logs stored offline.

Persistent observation

While firewall logging is essential, if logs are not regularly reviewed, you may miss the opportunity to stave off an attack before serious damage is done. Make a practice of reviewing firewall logs every day at work. Ask yourself, "Is this normal traffic or is someone trying to get in my system?" If you see anything suspicious, immediately contact your IT professional or security specialist. If the thought of reviewing activity logs is intimidating, instruct your IT consultant to perform the reviews and report the findings to you.

Another invaluable defense measure is to look for system files that have been changed from their original state. Hackers will frequently modify, corrupt system files, or name hacker malware after legitimate applications. There are many software programs that automatically analyze your system files and look for evidence of manipulation.

Without effective perimeter security, more businesses will be attacked and compromised by amateur hackers. It's no secret that business network security problems are mounting. If you are vigilant with your firewall, log reviews, and system file comparisons, you just may prevent your business from losing sensitive data.

Note: These recommendations do not constitute a comprehensive IT security regimen. They must be employed along with all security measures outlined in PCI DSS.

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

Danger Signals?

20 signs your business may be in trouble

In business, owners often become trapped because they don't heed the messages their business sends and don't pay attention to basic principles.

The following checklist represents a clear set of danger signals (situations and issues) that have a clear and negative effect on cash flow. Take a few minutes under the harsh, cold light of reality to ask yourself how many of the following danger signals exist in your business. Then evaluate carefully their implications.

Perhaps the greatest danger of all: not having adequate records and/or financial skills to be able to answer *all* of these questions—or not having any questions to ask! Do you know where your employees and customers are at this very minute? Without adequate controls, they're stealing you out of house and home. Nero fiddled while Rome burned.

The danger signals listed here can creep up on you even in good times. It's like the chain letter phenomenon: it grows exponentially. The only successful strategy I know is a combination of planning, control, and attention. Successful business owners practice discipline every day so they're always prepared.

So we know planning is the vital element, especially when we're talking about cash flow. Danger signals are just that: signals. The longer you wait, the fewer options you will have. Protect your cash flow lifeline and your business will survive and prosper. Remember this: you pay taxes on net profits, but you eat on cash flow. MUF

Steve LeFever *is the founder and chairman of Profit Mastery, a Seattle-based eLearning company that has trained more than half a million people on how to measure and manage financial information to consistently increase business profits. Educational courses are now available as an on-demand, online video program that can be accessed any time. Learn more at www.profitmastery.net or contact him at 800-488-3520 x14 or lefever@brs-seattle.com.*

1. An excess of unsold inventory
2. Customers not paying their bills on time
3. Tax obligations generally late and getting later
4. Writing business checks for personal expenses
5. Bank loan overdue
6. Paying suppliers late and getting later
7. Poor controls, presenting the opportunity for theft
8. Showing profits, but having no cash
9. Paying bills too early
10. Seasonal slump (or boom) creating cash shortage
11. Buying lots of fixed assets (like trucks)
12. Bank statement only reconciled once a year
13. Missing most purchase discounts
14. Excessive interest expense from high loans
15. Expenses rising dramatically from past years
16. Financial reports only prepared once a year
17. Bad debts increasing
18. High-moving items always out, always a "crisis"
19. Payroll checks written late
20. No lawyer or accountant


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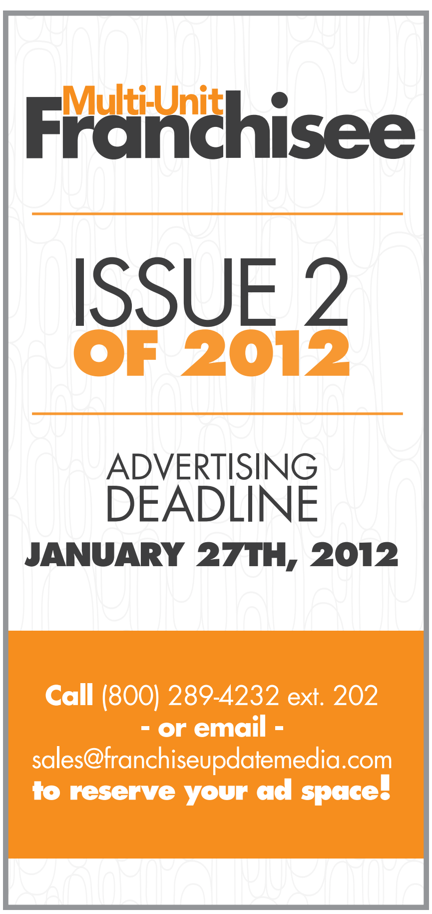
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BY CAROL SCHLEIF

Structurally Sound

A timeless approach for the 21st century

Is anybody else as fed up as I am with hearing about how bad things are? Let's get on with it already and start focusing on what we can do to survive—and thrive—in the new reality.

Periods of meltdown and renewal are not at all unusual for the United States. Read John Steele Gordon's book *An Empire of Wealth* for numerous examples of American ingenuity and stick-to-it-ness pulling us back from the brink of financial meltdown. This is the time when we need to pull ourselves up by the proverbial bootstraps, dust ourselves off, and figure out how we are going to push forward. At the risk of stating what should be painfully obvious, here are my thoughts on some of the things we can try to get "unstuck" and help us move forward:

• **Retool.** It's time to stop pining for what we've lost and start embracing the fact that the ground rules have changed. In financial services, for example, while mortgage underwriting is down, workout specialists and credit counselors are in demand. Given the current run rate of just over 500,000 new homes per year, we are probably not going back to developing 2 million new homes per year any time soon—if ever. This means there are loads of folks in the construction business and in ancillary businesses from appliance and carpet manufacturers to mortgage and insurance underwriters who need to seriously consider retraining for other careers. All sorts of industries (auto, apparel, railroad, etc.) have had to recreate themselves over the decades as progress marched on. Ask all the middle managers displaced in the late 1980s and early 1990s as the conglomerates of the 1970s were unwound. The initial period was heart-rending, but the long-term result yielded new, vital industries creating careers unimagined just a few years before.

I've heard that welders and over-the-road truckers are in short supply. Maybe it's time to rethink the old prescription that a college education (and the ensuing debt) is the way to long-term financial security. Perhaps tech and trade schools are an increasingly attractive alternative, especially with many of the basic trades so underrepresented in new graduate ranks.

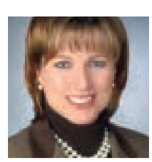
• **Live within our means.** Whether by choice or by the will of creditors, many of us are already doing this in our own households, the nonprofits we assist, and the businesses we own. Companies are doing it too, as Corporate America remains cash rich and operationally lean in aggregate. Now we need to demand that our politicians put us on a course to balance budgets at the local, state, and federal levels before investors (a.k.a. the creditors of the municipal markets) force the issue.

• **Get used to asset class returns in the low to middle single digits.** The incessant search for higher yields and returns is leading, yet again, to the creation of synthetics and doc-lite loans while putting extra risk in the market. Aging Boomers are reducing their exposure to the stock market in an attempt to reduce volatility in their portfolios as they near and enter retirement. If we could collectively stop pushing the envelope in search of the double-digit returns of the late 1990s, and rest comfortably knowing that single-digit returns can compound nicely too (especially if there is less volatility involved in generating them), perhaps there would be fewer sleep aids needed.

• **Learn to push back against the undue influence of the media.** Keep in mind the media has a vested interest in circulation figures and ad revenue. It's been proven time and again that feel-good stories just don't sell as well. And non-incumbent politicians don't tend to get elected by citizens content with the status quo. Few of us stop to consider these motivations when presented with yet another sensationalistic sound bite. And, as behavioral scientists point out, these sound bites actually prompt us to want to take action. When we are continually bombarded with news about how bad we have it and how bad we are supposed to feel, what other choice do we have? Suggestion: Keep a file of blatant headlines for a year and thumb through it on New Year's Day. You will be amazed at the seesawing of emotions. Focus on your own successes and choose to convey what's going right in your own household, on your block, in your company, etc.

• **Redefine success.** What does success mean to you? Accumulating a big pot, or leaving behind a memorable legacy? All too often we get so caught up in the rat race of acquiring, protecting, and growing our financial wherewithal we forget that life is about oh-so-much-more. At your 90th birthday party, as you look back, what will "success" look like for you?

If we all put our heads together and keep these recommendations in mind, perhaps we can create our own tipping point and turn the tide of pessimism into positive, constructive action. MUF



Carol M. Schleif, *CFA, is a partner and investment principal of Lowry Hill, a Wells Fargo business. Lowry Hill is a private asset management firm that provides proprietary investment management and financial services to families, individuals, and foundations with wealth greater than $10 million. The firm manages approximately $4.7 billion in assets for nearly 300 families and 56 foundations from offices in Minneapolis, Naples, Fla., and Scottsdale, Ariz. Schleif (formerly Clark) welcomes questions and comments at cschleif@lowryhill.com.*

BY JACK MACKEY

What's in a Name?

Training front-line employees in customer engagement

THIS HAS ALWAYS BEEN THE PLACE, RIGHT? AMERICA, I MEAN, where anybody can start with nothing and turn it into something. Every multi-unit organization started with a dream, and many with just a single location. And for those who have kept their promises to customers and delivered great service, success has often followed.

Let me tell you about Lenny's Sub Shop, founded in Bartlett, Tenn., in 1998 by Len and Sheila Moore. Lenny's is a Philadelphia-style sub shop that has grown to about 200 franchisees across the country. They serve their own unique brands of potato chips and thin crisps, and they make a signature hot cherry-pepper relish, just one way they make their subs unique. Their sandwiches are terrific. Why? They provision top-quality products, slice meats and cheeses to order, and adhere to their recipes religiously. But what is their recipe for customer service, for creating a friendly welcoming environment?

At Lenny's they strive to learn the name of every regular customer—and to memorize where they work and their favorite sub. They make a game out of this and even have a little internal competition going about who can remember the most customers by name, place of work, and favorite sub. So when I walk in, it's "Hey Jack from SMG, turkey and Swiss with light mayo on wheat, right?"

This is the classic "Cheers Effect," where everybody knows your name and your favorite drink. This is above and beyond being nice to customers. This is being *engaged* with customers. We know from modeling the impact of friendly, engaged employees on customers that these behaviors drive customer loyalty.

When employees at Lenny's don't recognize a guest, they ask if this is their first visit and offer to guide them through the menu to help them find what they want. Along the way, employees are encouraged to make a personal recommendation—not one that sounds like they're promoting the most expensive thing on the menu, but a sincere recommendation about a menu item the employee personally loves.

And they get extra credit in the customer engagement column for making personal recommendations. When a guest takes your recommendation and "loves it," that creates a highly satisfied guest—one who is highly likely to return; in fact 200 percent more likely to return than guests who are not highly satisfied. That is crucial to converting first-timers to regulars, and to explaining why Lenny's is succeeding today.

Here's another example of a service-oriented franchise: Papa Murphy's, the world's largest "Take 'N' Bake" pizza and the fifth-largest pizza chain in the U.S., with more than 1,100 stores, almost all of them franchised. In 2003, Papa Murphy's was voted "Best Pizza Chain in America" and has been every year since. The brand has won multiple awards, and they advertise these, but they know that they have huge competition from Costco, grocery stores, and other pizza chains. So instead of becoming spoiled by success, they focus on connecting with each customer to separate themselves even further from the competition.

Papa Murphy's has three opportunities to engage customers: (1) when they walk in to place their order, it's easy to get names and use them; (2) as the customer goes through the line to get their pizza made to order, the employee has a chance to use the customer's name in conversation; and (3) as the order is handed over to the customer, one more chance to address the customer by name.

The key is to engage each guest in a casual conversation as the employees are preparing the pizza. Papa Murphy's makes it easy for the employees to do this—in fact, they provide them with coaching every day. At Papa Murphy's, when employees come to work, there are three conversation topic starters posted in the back of the house. One could be about a nearby local event, another might have something to do with a local sports team, or maybe it's as simple as the local weather forecast. The point is that the managers are not just telling employees to use the guest's name and engage with them, they are teaching them how and modeling this behavior.

Just as the food preparation is deliberately designed to yield a great product every time, the guest interactions at Papa Murphy's are baked into the operation. It's part of the business operating model and a big reason why they've been making it in the U.S. for 30 years.

Lesson? Your customer service *is* your operation. Customer service is not the icing on the cake—it should be baked into the cake. This is a key to long-lasting growth.

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.*

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Seller Beware

Look beyond price when evaluating buyers

When sellers are contemplating a decision regarding the sale of their business, they overwhelmingly select the bidder with the highest price, only to find afterward that this might not have been the best decision for their circumstances. Just as a financing decision is more complex than simply getting the lowest interest rate, the process of selecting the optimal buyer for a particular transaction entails more than simply selecting the one offering the highest price.

For business owners, the decision to sell requires careful consideration. Frequently, sellers arrive at their decision to sell after a long and thoughtful assessment, which includes an analysis by the seller of their personal, lifestyle, and financial considerations. Unfortunately, after the decision to sell is made, many sellers give considerably less thought to the buyer selection process. The decision of whom to sell your business to is equally as important as making the decision to sell.

To avoid deal disappointment and the possibility of a substantially modified or even failed transaction, gaining a detailed understanding of the selling process is critical. A seller's first step in this process is to assess their own key motivations and objectives for pursuing the transaction. Of course, a seller wants to maximize the proceeds from a transaction, but other considerations also are critical factors, including transaction timing; the legacy the seller leaves behind; employee protection and enrichment; and future relationships with third parties such as franchisors, lenders, and landlords. It is easy to make an initial buyer selection based on the highest bid because it is a quantitative measure. However, a qualitative assessment is imperative as well.

Once a seller has identified and prioritized their own objectives, understanding the prospective buyers and assessing their respective qualities is a critical next step. Not all buyers operate the same way. The most professional (and often the best) acquirers pride themselves on completing extensive due diligence to gain a detailed understanding of the business and the seller's objectives from a transaction. This helps ensure a successful process and minimizes the chances for re-pricing the transaction.

However, other potential buyers will use a strategy of submitting an offer after expending a minimum amount of effort in assessing the deal, with the plan to invest the effort in due diligence only after they are awarded the transaction through an accepted Letter of Intent (LOI). Too often these types of buyers will change their position once they gain a detailed understanding of the business. Unfortunately, this arises only after both sides are well into the process and have committed extensive resources to the potential transaction.

Finally, there are those buyers who knowingly overbid the transaction to get it "off the street," with the intent to renegotiate afterward. This strategy attempts to capitalize on the fact that the highest offer is often too tempting to pass up for most sellers, and once sellers engage with this buyer, it is too late to go back to the other potential buyers. It is not uncommon for even the most astute business people to fall into this trap and fail to be diligent in their assessment of the buyer.

Seller's checklist

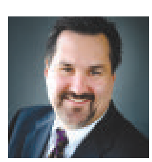
So, what steps can a seller take to increase the odds of a successful outcome? First, require in-person meetings with a buyer. You and your professionals can benefit from reading the unwritten messages in the body language of a buyer when they are presented with pointed questions. In addition, if the buyer is willing to travel to meet you on your home field, there is some indication of commitment on their part, and confirmation they are serious.

Second, look at the buyer's track record: What deals have they successfully closed to date? Any recently? What is the buyer's proposed timing for the transaction? And is their "quality" as a buyer strong enough to secure franchisor approval, lease assignments, and guaranty releases?

Third, make sure a buyer's plan addresses factors other than price. Putting price aside, does their plan for buying your business meet your other goals for a transaction? Do you understand the details of your buyer's plan? Where is their equity coming from? Who is providing their debt financing? Has the lender already started its underwriting? Has a commitment letter been provided? If you are selling a franchise business, determine if the buyer is already an approved operator in the system. Do they have an approved operating partner and the infrastructure in place to successfully run the business? What is the buyer's intent regarding your employees? What is the buyer's relationship with your franchisor? What is their transition plan? What is the plan for outstanding Capex and remodel requirements?

Finally, ensure that the buyer has full disclosure up front, to force the diligence process in advance of an LOI. As noted above, you do not want to fall into the trap of taking your business off the market as the result of a dazzling offer, only to be re-traded by a buyer once they do their homework after making the offer. Full disclosure up front also holds the seller accountable. Some sellers may want to gloss over or even hide financial events from the buyer, but this slippery slope plays right into a buyer's hands, and almost guarantees the price will be renegotiated. Damage is done by setting false expectations of value, which leads to mistrust, could spell the demise of the transaction, and will likely damage the seller's reputation. The rule here is to give the buyer what they are looking for and what they deserve to see in due diligence, because they will ultimately find out anyway.

Price is but one consideration in a potential transaction. And if the quality of a buyer is such that they can't perform, the offered "price" becomes worthless. The best deal is one that gets closed at a fair price. Remember that there are many professional pretenders out there: don't let yourself fall prey to one. 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.*

People

BY MEL KLEIMAN

Take This Job and Love It!

The 5 things your employees want most

When great front-line hourly employees quit, most managers take it personally—and with good reason. For more than 20 years, employee exit interview research has been telling us that the #1 reason the best people leave is because they feel they are being poorly managed. In other words, these folks joined the company and then quit the manager.

Just imagine how frustrated you would have to be with *your* job to decide to go elsewhere. That's how dissatisfied all the outstanding people who have left your organization have felt. If your people truly are your greatest assets, then the way your managers and supervisors manage those assets is the crucial key to your organization's success.

Whether you're recruiting field and area managers or hourly employees, there are five specific things everyone wants from their job, no matter what their position. If you can provide most or all of them, you'll be able to attract and retain the employees you deserve—the best!

For a quick evaluation of how well you deliver what your employees want most from their jobs, rank yourself on a scale of 0 to 5 on each of the items below (where 0 = Poor, 1 = Below Average, 2 = Average, 3 = Average, 4 = Above Average, and 5 = Excellent). Be honest. Before assigning a value, ask yourself how your employees would respond. If you can't give yourself at least a four for each category, what can you do to improve?

1. A great boss and co-workers. Who wouldn't prefer to work on a cohesive team where everyone pulls their weight and gets along? This is easier said than done. Sometimes the applicant who wowed in the interview turns out to be a dud on the job. When a hiring mistake is made, great managers know to cut their losses fast because their A-players won't stick around long if they have to carry or cover for slackers.

2. Interesting work. Great managers know how to make even routine tasks engaging. They create contests and reward things like increased productivity and safety. They find ways to make work fun. In a recent survey of employees, 60 percent of the respondents reported their employers were not making use of all of their capabilities. Is that cashier a social media whiz-bang who could help you build a customer following? Could the purchasing agent/people-person be put in charge of organizing celebrations? Regularly survey employees to find out what other talents they have that would benefit the organization and keep them on board and engaged to boot.

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3. Growth and opportunity. Not everyone wants ever-increasing responsibilities, but for those who do, great managers publicize opportunities and make the requirements and expectations clear. More than that, great companies and their managers do everything they can to help aspiring employees achieve their goals through tuition assistance, flexible hours to accommodate higher education, cross-training, seminars, special assignments, etc.

4. Family-friendly policies. Employers flexible enough to accommodate family-related special needs will have a competitive edge when it comes to recruiting and retaining top talent.

5. Recognition, validation, appreciation. These are the most powerful, cost-effective management tools available, yet they're distressingly underutilized. Research verifies that recognition programs enhance employee engagement, performance, and retention. More effective than formalized programs, however, is a manager's sincere appreciation of a job well done, presented in the way that a particular employee will most appreciate. Some people love the spotlight and want to be acknowledged in front of their peers, while others would prefer a private acknowledgment. Some would love movie tickets and others would love a day off with pay. What you say is also important. "Thanks for taking the initiative and making sure that customer left happy" is far better than, "Thanks for the great job."

One caveat: Scrap that "Employee of the Month" program. If a manager is choosing "winners," the results will be seen either as acts of preferential treatment or as meaningless honors ("It's your turn this month."). For a formalized recognition program to work:

1) publicize which specific achievements or goals will be recognized;

2) make all employees eligible for the recognition; and

3) make sure the recognition occurs as close to the accomplishment as possible so it reinforces the positive behavior.

In your recruitment ads, spell out what you offer that your competitors don't. If that includes great teammates, interesting work, opportunity, family-friendly policies, and recognition, the ad's headline could be: "Take This Job and Love It!"

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AdIndex

BY DARRELL JOHNSON

Adaptability: the New Keyword

Focusing in on the new realities

The U.S. economy is on the rise. While the world economy will be fortunate to realize a 3 percent growth rate in 2012 (less than 2 percent and we'll see a global recession, something too close to call at the moment), most of the domestic indicators are signaling a positive outlook for next year.

Yes, Europe is a mess, China is slowing down, and Japan is close to returning to the economy of its lost decade. With most other economies substantially smaller, there aren't any foreign engines of growth to get the world humming again.

Despite all that, the U.S. gives us some reasons for optimism. We're still in the aftermath of the decade of indulgence. The period from 2002 to 2008 was marked with unprecedented consumer and government spending. Consumers spent too much using the all-too-easy credit access known as home equity, ATMs, and credit cards; and the government managed to expand its spending across all continents and categories.

Until both consumer and government debt get back to more affordable levels, the hangover will continue. It is going to take years, and it's not at all clear whether the government has the fortitude to deal with its portion of the tab and, if so, how it will do it. That uncertainty will further constrain business and consumer spending.

Riding out the cycles

In economic terms, the period from 1985 to 2007 could be considered the Great Moderation in business cycles, when dips were few and far between. Compare that with 1799 to 1929, when nearly 90 percent of U.S. expansions lasted three years or less. With the Fed out of high-caliber ammunition and the political climate anything but conducive for a cooperative solution, it seems likely we're returning to the historical norm of more frequent and dramatic swings in economic activity.

So how can this backdrop portend a good business outlook? Let's start with a look at the S&P 500. Do you know when more than half of those companies started? Good guess: during economic downturns. And the stock market is signaling some strong buy messages. Corporate America has the lowest collective debt and highest cash reserves in decades.

American business culture is built on entrepreneurialism, and the next wave of great companies has already been started. They're all around us. Bully for American business! But for many of you with growing or mature brands, that just adds to the challenge. Even now we see new franchise brands being started, on average, every three days.

That leads me to a key driver for almost every company in the U.S. and certainly every franchisor: adaptability. In the economic turbulence ahead, companies are focused on the bottom line, not the top line. Corporate America has carefully grown the top line and substantially improved the bottom line during the past four years by focusing on measures that account for the new realities. What they have done gives the franchise community a good road map for the next few years.

A look ahead

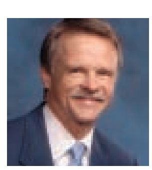
Whether for marketing, franchise development, training, operations, or compliance, franchisors must be confident they are spending smartly and effectively. Picking the next area to develop will be made with forecasts of local, city, and county growth patterns 5 and 10 years from now, when your franchisees will still be running their businesses.

Training will have more business-level skill development and information sharing to strengthen the franchisee overall. Support will find ways to overcome traditional legal barriers to do what's right and necessary with franchisees. And all of this will be benchmarked, not only internally but across brands and sectors. Adaptability to what the changing market and demographics suggest will be a distinction that successful brands will embrace.

We're seeing the power of this today with Bank Credit Reports (BCRs), a specialized form of benchmarking. BCRs compare brands within franchising on factors relevant for bank credit decisions. Many of the measures used in BCRs are new to franchisors, and even to many banks. Yet they are relevant in these economic times—and they are establishing performance measures that will lead to greater access to capital for brands with good outcomes.

Their real power is that they provide a level of credit risk forecasting for banks that are shifting capital away from independent businesses (where banks struggle to have any predictive credit risk ability) toward franchising (which has a lot of credit risk predictability).

In uncertain times, the winners will be banks, franchise companies, and companies in general that can suffer amnesia for what worked 10 years ago and adapt operations and measurements that focus on the things that matter in this multi-year period of greater economic swings. MUF



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