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Multi-Unit Franchisee

ISSUE III 2012

2012 MVPs!

SIX FRANCHISEE ALL-STARS MAKE THIS YEAR'S TEAM

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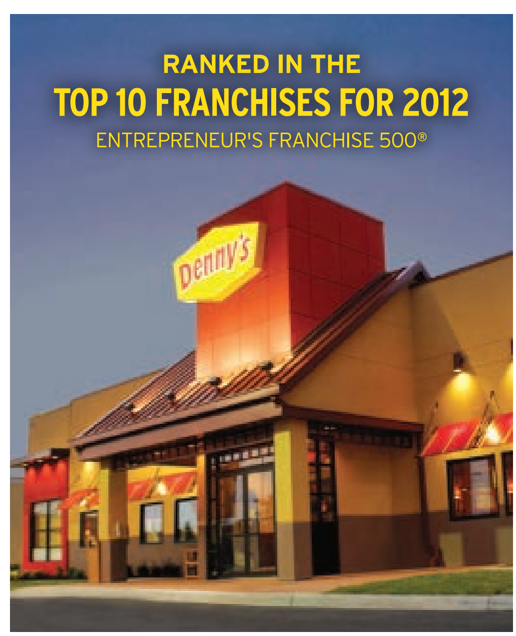

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ISSUE III, 2012

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Chairman's Note

BY JOHN METZ

What Happens In Vegas *Doesn't* Stay There!

This year's Multi-Unit Franchising Conference has come and gone, but the lessons learned did not stay in Las Vegas. With record attendance and brands represented, and conversations lasting into the wee hours, this year's event was an overwhelming success. I had the opportunity to be involved in and overhear many other conversations where people were sharing ideas, advice, and exploring both new concepts and new vendors.

For many, the keynote speakers provided a few of the many highlights over the three days (four if you count the pre-conference golf tournament). *Good to Great* author and renowned business guru Jim Collins provided an insightful and inspiring perspective on taking our companies to the next level and, as leaders, ensuring their sustained success.

Nigel Travis, CEO of Dunkin' Brands, in his presentation on the state of Dunkin' Donuts, provided some refreshingly honest insights about the brand. He then shared the spotlight with two multi-unit franchisees in a lively discussion on how the brand is now collaborating with the same franchisees it once was at odds with, and even said he would consider putting a franchisee on the Dunkin' board.

Dave Shula, president of Shula's Steak House, shared some of the inspirational spirit instilled in him by his father Don Shula, the winningest coach in NFL history. The same elements that make up a winning football team are easily applied to franchising, and Dave shared many of those aspects that can help multi-unit franchisees to thrive.

Overall, the conference allowed fellow empire builders to join and discuss issues such as politics, healthcare, and taxes in an open environment. Multi-unit franchisees are lucky to have this sort of platform to come together each year to catch up and debate, listen to franchise leaders, and share openly.

This issue of *Multi-Unit Franchisee* features an overview of the conference, with highlights, lessons learned, and more about the record numbers of attendees. For those unable to attend this year, it will outline many of the topics covered, including results from a conference survey asking the question, "What keeps you up at night?" Franchisees and franchisors both were asked the same question, and with so many political, social, and economic issues up in the air, the many similar responses helped each of us know our colleagues are feeling the same way.

As I close out my year as conference chair, I would like to thank all those who helped make this year such a success. It was an honor to serve, and I am already looking forward to next year's conference as I pass the responsibility to next year's chair, multi-unit franchisee Sean Falk.

John Metz
Chair
2012 Multi-Unit Franchising Conference

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✓ CONFERENCES

Multi-Unit Conference Raises the Bar

Franchise Update Media Group's annual Multi-Unit Franchising Conference celebrated its 11th anniversary by hosting its largest event to date. The Mirage in Las Vegas played host to nearly 1,000 franchise movers and shakers

this past April. Plans are already under way for next year's event, which promises to up the ante once again, March 27–29 at Caesars Palace Las Vegas. For a look back at the 2012 conference and a peek ahead to next spring's event, visit ***www.multiunitfranchisingconference.com/***.

✓ ONLINE

Multi-Unit Community Grows

Check out our community-based website for multi-unit operators. It's your exclusive look into the world of multi-unit franchising, your one-stop shop to find:

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Great entrepreneurs build great organizations. They possess a knack for making smart business decisions, building great teams, and creating successful companies. But as we've learned from years of interviewing successful multi-unit franchisees, they've also struggled, doubted, and made more than a few mistakes—yet they've soldiered on, persevered, and ultimately come out on top.

To provide a deeper sense of their journeys, insights, and personalities, we're selecting franchisees from our most inspiring print interviews and creating a new series of online videos of these franchisee leaders—who we call Empire Builders. ***www.franchising.com/empirebuilders/***

✓ Taking it Beyond

"The franchise gives you the basic things to put you in business pretty quickly. What we found is that you have to take it beyond that and be creative to come up with new and novel ways of doing things that are particular to your company and your community." ***—Charlie Divita, with wife Judy, 2012 MVP Innovation Award Winner***

✓ Making a Difference

"We all talk about what we are going to leave behind, we accumulate all these things. But I really feel that I will not have lived in vain if I can leave this planet with just a few people saying I inspired them to do better, they had an opportunity to do better, and somehow I made a difference in their life."

—Cathy Amato, 2012 MVP Role Model Award Winner

✓ FRANCHISE OPPORTUNITIES

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✓ RANKINGS

Check out our annual rankings of top franchisees and their multi-unit brands. Find out "Who's on first."

www.franchising.com/multiunitfranchisees/mu50.html or ***www.franchising.com/multiunitfranchisees/mega99.html***

✓ PRESS OFFICE

"Don't just survive, thrive!"

Franchise Update Media Group's *2012 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.franchising.com/***franchisors/afdr.html and ***www.growtogreatness.net/***.

✓ QUICK-LINK

For a one-click online link to articles in this magazine and archived issues of *Multi-Unit Franchisee* magazine, visit ***www.mufranchisee.com/***.

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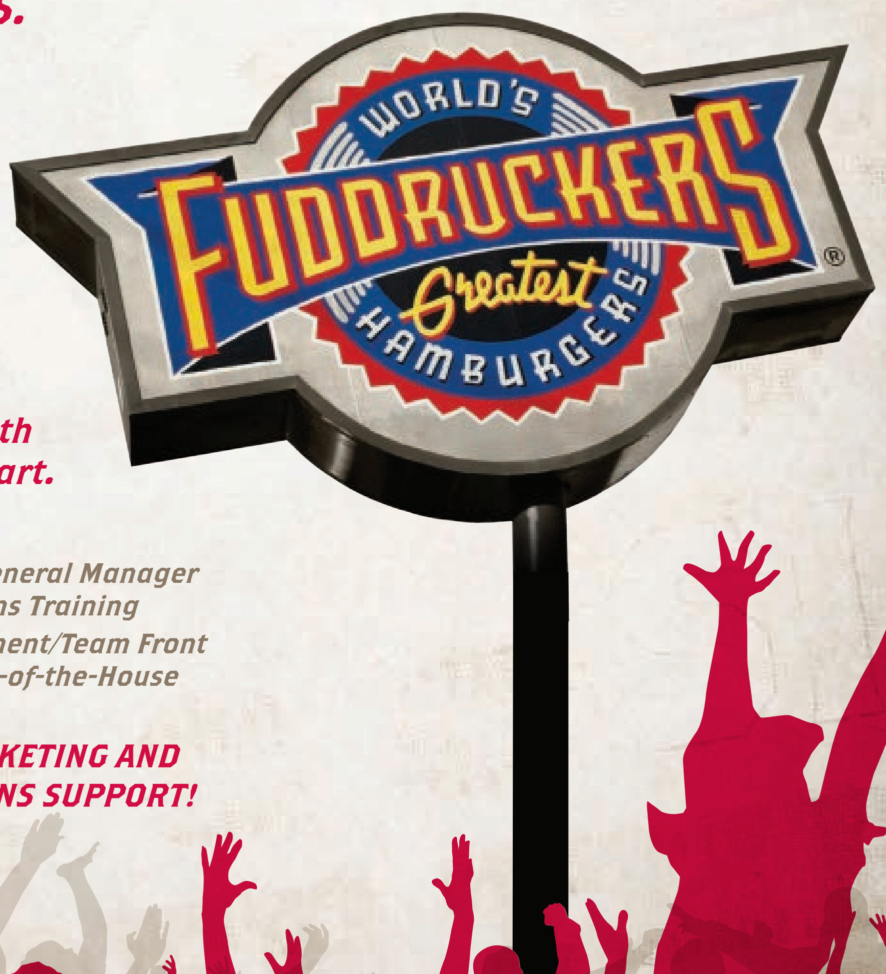

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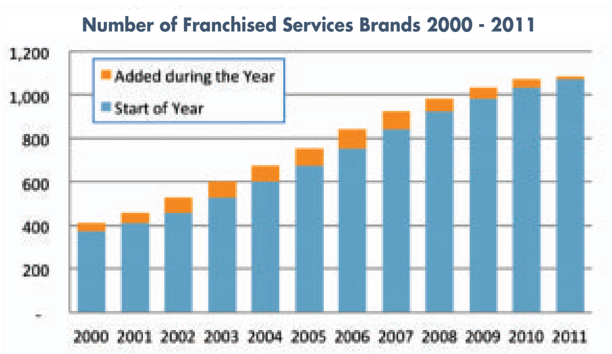
Services by the Numbers

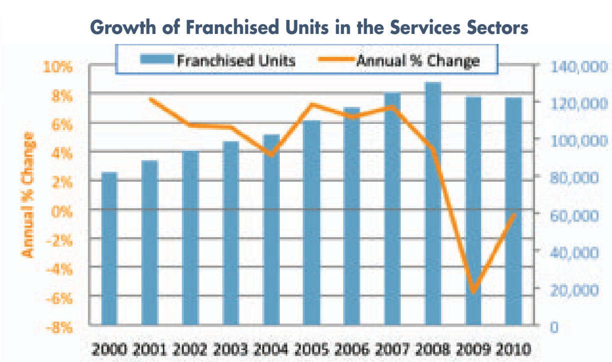
We asked FRANdata for the numbers on franchised services brands, highlighting trends, growth (and shrinkage), and brands on the move. Here's what they found.

In 2012, franchised services brands operate in 14 industries across nearly 100 sectors. From 2000 through 2011, the number of franchised services brands operating in the U.S. nearly tripled, from 400 to 1,100.



Services by the unit

The number of franchised units in the services sector increased between 2000 and 2008 from about 82,000 to more than 130,000. In 2009, however, they took a beating after the economic crisis that hit the country a year earlier. After growing at an annual average of 5.9% between 2000 and 2008, the number of units operated by franchised services brands declined by 5.7% in 2009. This decline was almost halted in 2010, and based on a small sample of brands for which 2011 franchised unit numbers were available, brands in this sector increased their franchised units again, by an average 1% from 2010.

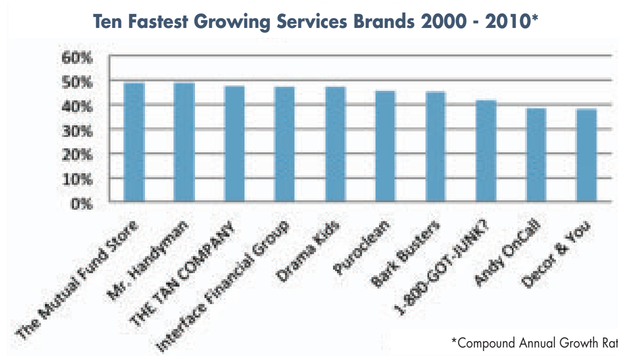


Top sectors by unit growth

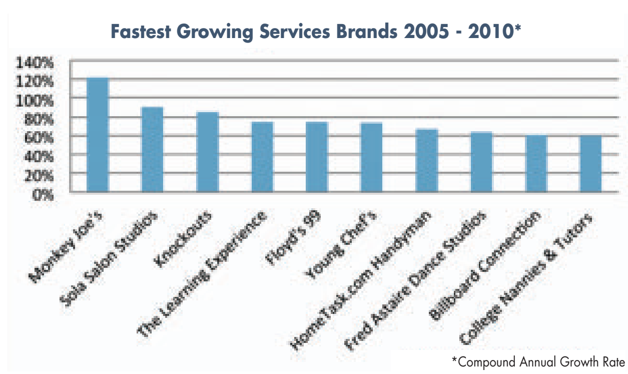
Overall, services brands increased their franchised units at a CAGR of 4% from 2000–2010. However, for 2005–2010, this rate decreased to 2%. Over the entire decade, computer repair and security were the two fastest-growing sectors (by franchised units). Hair care and pet-related services were the only two sectors among the 10 fastest-growing services sectors in both the 2000–2010 and the 2005–2010 periods.

Fastest-growing services brands

The fastest growing services brand from 2000–2010 was The Mutual Fund Store, which increased from one franchised unit to 54 after peaking at 58 in 2008. In fact, along with Interface Financial Group, two financial services brands made the top ten.



However, none of these brands was among the 10 fastest-growing concepts from 2005–2010. Over the past five years, hair care and child-related services brands grew their franchised units faster.



Largest services brands

Not surprisingly, the largest brands in terms of franchised unit numbers are in the maintenance services and the business-related sectors. Jani-King (9,200) and Jackson Hewitt (5,400) led the pack with the most franchised units as of 2010. Both concepts were significantly affected by the economic crisis, with their franchised units peaking in 2007 and then declining continuously since. Jani-King's franchised unit count fell 8% between 2007 and 2010, and Jackson Hewitt's fell 6%; for the latter, the trend worsened in 2011, when its unit count dropped another 11%.

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BY KERRY PIPES AND EDDY GOLDBERG

MVP Awards Honor 2012 Winners

Recognizing superstars in six new categories

They work hard to build businesses that provide for their families. They create jobs and give back to their communities. They're innovators unafraid to do things differently, often on a large scale. They are among the superstars of franchising, and *Multi-Unit Franchisee* is honored to recognize six of these winners with our 2012 MVP Awards.

CATHY AMATO *Role Model Award*

For providing an example for others to follow in franchisee success

Cathy Amato got her first job at 14, busing tables and washing dishes at the Highway Cafe in La Vernia, Texas. Today she and her partners operate 55 Subway restaurants in San Antonio and Austin, and since 1992 she has worked for the Subway development office for South Central Texas. In 2011, she became a development agent for Mooyah Burgers & Fries, also for South Central Texas, and hopes to have 50 locations open by 2020. She has been featured on the cover of *San Antonio Woman* and *Nside* magazines and honored by *La Prensa* for Outstanding Women in San Antonio in the restaurant category.

CHARLIE & JUDY DIVITA *Innovation Award*

For bringing a new and unique contribution to their brand

They could have retired, but after one bite of a Firehouse Subs sandwich they just had to become franchisees. One example of their innovations is the software they developed to feed both visiting and home sports teams playing at the University of South Carolina. Their passion is showcased in their ongoing dedication to the Firehouse Subs Public Safety Foundation, raising $16,000 last year for first responders. And, after a tragic fire took the lives of local students, they rallied the town and university and made one of the largest donations to *two* fire stations.

ATOUR EYVAZIAN *Noble Cause Award*

For his passionate, unwavering support for those in need

Atour Eyvazian led his multi-unit franchise team to great heights in a relatively short time, transforming himself from a 19-year-old refugee from Iran into Jack in the Box's largest individual franchisee, where he has consistently demonstrated outstanding performance and impressive growth. But it's the time he dedicates to less fortunate individuals through the H.E.A.R.T. Program—a local charity that provides education, training, housing, and employment to adults with mental and physical developmental disabilities—that makes him really shine.

ED DOHERTY *Spirit of Franchising Leadership Award*

For extraordinary and enduring performance, growth, and community giving

Ed Doherty worked his way into franchise ownership with 19 Roy Rogers restaurants, successfully navigated his way through Wendy's and eventually into Applebee's and Panera Bread, and now has two brands of his own. Those early years were turbulent, but his passion and mission have never wavered. With almost 100 restaurants across five brands, his more than 6,600 Doherty Enterprises team members make huge charitable contributions to their communities – like more than $2.7 million for the U.S. Marine Corp's Toys for Tots program.

KEVIN OSTERFELD *Influencer Award*

For demonstrating the path to success to other franchisees

When Kevin Osterfeld's dream job as a stockbroker didn't turn out so dreamy, he decided to switch things up. Twenty-five years later, he operates 18 Penn Station East Coast Subs and has become a mentor to those entering the system today. His team has a long history of excellent operations, local marketing, and business practices that have made them the "go to" organization for developing best practices for other franchisees to follow. And his High School Athlete of the Month Scholarship Program has helped many young Dayton, Ohio athletes realize their own dreams.

EDWIN SARKISSIAN *American Dream Award*

For achieving remarkable success in his new country

Edwin Sarkissian emigrated to the U.S. from Iran as a young teen in search of the American Dream—and through hard work and determination, he has found it at age 28. After working at a McDonald's and building out hotel franchises, he knew he wanted a business of his own. Today he operates 3 Best Westerns and 3 Fantastic Sams and he understands the importance of following the system and promoting the brand. He has used cars, trucks, and trailers driving around town to advertise "Fantastic Sams Hair Salon Coming Soon." And yes, the grand opening was a smashing success.

2012 MULTI-UNIT 50 RANKINGS

Looking for a new brand? Don't miss this year's "Multi-Unit 50" lists, ranking brands by (1) greatest number, and (2) percentage of multi-unit franchisees in their system.

BY HELEN BOND

Partner Power

Building success through collaboration

On Cathy Amato's first day as a Jack in the Box management trainee in the early 1980s, her trainer questioned whether Amato was up for the rigor ahead—changing grease vats, scrubbing floors, and crazy hours.

"He was really like, 'Real girls don't want to do this kind of work,'" Amato remembers.

He didn't know Amato, who along with partners Martha Jordan and Rick Riley, collectively own and operate 55 Subway restaurants in San Antonio and Austin, along with Mooyah and Ruby Tuesday brands. The winner of *Multi-Unit Franchisee* magazine's 2012 MVP Role Model Award truly believes she is in a business that rewards hard work with opportunity.

"I never had any aspiration or skill set that would necessarily help me be successful in the restaurant industry," she says. "I started at the ground floor and through hard work and applying myself I've been able to move up the ranks. But also, I have been able to go out on my own and build a substantial company."

She may not have predicted her career path, but it seems fitting that at 14, Amato's first job was as a busboy and dishwasher (by hand) at the Highway Café in La Vernia, Texas, outside San Antonio. Years later, when she "needed a break" from clerical work, she returned to the restaurant industry as a waitress. Amato fell in love with the people, the business, and the unstructured hours—and never looked back.

Lured by a Jack in the Box ad aimed at

NAME: Cathy Amato

BRANDS/UNITS: 55 Subway, 3 Ruby Tuesday, 1 Mooyah Burgers & Fries

FAMILY: Married

YEARS IN FRANCHISING: 20

YEARS IN CURRENT POSITION: 20

2012 MVP *Role Model Award*

FOR PROVIDING AN EXAMPLE FOR OTHERS TO FOLLOW IN FRANCHISE SUCCESS

You were recognized with this year's MVP Role Model Award. Tell us more about what you did. With my partners, Rick Riley and Martha Jordan, we own 55 Subways. I have worked for the Subway Development Office and helped develop the Subway brand in South Central Texas to 420 restaurants by selling franchises, site selection, and leasing. In 2008, I signed a development agreement with my partners Rick Riley and Charlie Amato for five Ruby Tuesdays in Bexar County and now own and operate three Ruby Tuesdays. Martha Jordan and I are the development agents for Mooyah for South Central Texas. We just opened our first Mooyah a month ago in San Antonio, which is the second in the territory.

As a multi-unit franchisee, how have you raised the bar within your company? This year we hired a human resources manager as well as added a new training facility where we do company-wide orientations at our offices for every new hire. We have revamped all employee performance systems and made them more comprehensive. Our training is much more defined. In 2012 we will begin holding in-house management training classes to certify all managers.

Give us an example of innovations you have created and used to build your company. We implemented Bonus Bucks, where employees earn points for tenure, guest compliments, birthdays, anniversaries, etc., which they can accumulate to buy cash cards, novelty items, and electronics.

What core values do you feel led you to winning this MVP Award? Hard work, determination, perseverance, and involvement in the community. I also believe they wanted to recognize a woman majority-owned company in a field that has been dominated by men. I hope we can be a role model for the many women entering the restaurant industry. The door is wide open and has many great opportunities for success, from a career level as well as business ownership.

Please understand that everything that I have accomplished would not have happened without my business partners and great management team. My partners balance my weaknesses and we have been fortunate that we are all driven to excel in different parts of the business. Our management teams are tenured and have taken us from the very start of our business with annual sales of less than $250,000 to many companies that together are projected to do $30 million in combined sales for 2012. I am very blessed to be surrounded by such individuals.

bringing more women into management, the budding restaurateur cleaned those vats, scrubbed those floors, clocked those crazy hours, and soaked up every facet of management, eventually becoming the corporate training manager for all of South Central Texas. After 15 years, Riley snatched up Amato for Subway, where she also works for the development office for South Central Texas, responsible for selling franchises, site selection, and leasing. With strong growth plans ahead and supported by an established infrastructure, Amato is passionate about promoting from within, developing in underserved areas of the city, and being a good corporate citizen.

Amato is a role model—on and off the field. She has served as a board member for the local advertising boards for Subway and is an advocate, with her husband, prominent businessman Charlie Amato, of child-related causes and animals, a natural for Amato, who has three dogs, two cats, and a parrot. She says the MVP Role Model Award "touched her heart" because she hopes it will inspire others.

"We all talk about what we are going to leave behind, we accumulate all these things," she says. "But I really feel that I will not have lived in vain if I can leave this planet with just a few people saying I inspired them to do better, they had an opportunity to do better, and somehow I made a difference in their life." MUF

PERSONAL

Key accomplishments: Developing the Subway brand in South Central Texas, 420 units.

Biggest mistake: Sweat equity-only partners.

How do you spend a typical day? Workout, work, community and social activities.

Work week: Whatever it takes.

Favorite fun activities: Hanging with friends and a great martini, sharing dinner at great restaurants, exercising, reading, large family get-togethers, girlfriend trips.

Exercise/workout: 6 a.m. CrossFit

Favorite tech toys: iPhone

What are you reading? *If the Buddha Got Stuck: A Handbook for Change on a Spiritual Path* by Charlotte Sophia Kasl; *Behind the Beautiful Forevers: Life, death, and hope in a Mumbai undercity* by Katherine Boo.

Do you have a favorite quote/advice? "I'll think about it tomorrow." (Scarlett O'Hara)

Best advice you ever got: Take care of your people and they will take care of your customers.

Formative influences/events: Grew up with parents with strong work ethics. Instilled from a very early age that if I wanted something I would have to work for it.

How do you balance life and work? Work hard, play hard, sleep little.

MANAGEMENT

Are you in the franchising, real estate, or customer service business? Why? I want a proven concept. There is a greater chance of success with a proven brand. I love the *people* in the restaurant industry. They are special and interesting and usually outside the box.

As an operator, what are the two most important things you rely on from your franchisor? Marketing plan and cost controls.

What gets you out of bed in the morning? Got a lot to do.

What's your passion in business? Seeing growth in the employees and business.

Management method or style: Performance driven, balanced with caring about people. I really like the new way some companies are giving employees the latitude to accomplish objectives in their own way.

Greatest challenge: Get organized, stop doing things at the last minute (like this).

How close are you to operations? I'm always looking from a customer perspective. My partner does the day-to-day operations and can catch the tiniest of details.

Have you changed your marketing strategy in response to the economy? How? In today's economy there has to be a value message along with any other marketing platform.

How is social media affecting your business operations? Get with it or get left behind.

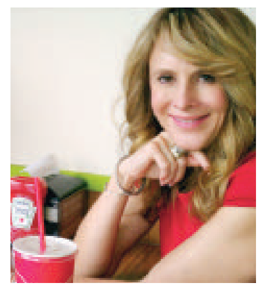
How do others describe you? Fun, driven, determined, nice—and throw in a little overcommitted.

How do you hire and fire? We promote quite a bit from inside while still making sure we hire from the outside so we don't get too "inbred." We try to balance the two to create a strong team of brand experts and new ideas. Employees fire themselves by their nonperformance.

How do you train and retain? We have web-based training systems in our restaurants that are really state of the art.

How do you deal with problem employees? Seriously. We give them every opportunity first to be retrained and remotivated.

"In today's economy there has to be a value message along with any other marketing platform."



BOTTOM LINE

2012 goals: $30 million projected (total for all brands)

Growth meter: How do you measure your growth? Same-store sales against prior year first, but it is fun to see your total revenue grow from adding additional units.

Vision meter: Where do you want to be in 5 years? 10 years? Still in business and making a dollar. In 5 to 10 years, have some key people in place so I'm still involved but not bolted down.

How has the most recent economic cycle affected you, your employees, your customers? We are all faced with rising costs that affect our disposable income. We are all making buying decisions based on value and not spending as much as we used to. The days of wanton spending are gone and everyone is more cautious where and how they spend their money.

Are you experiencing economic growth/recovery in your market? We are lucky to be in San Antonio, Texas. We feel it, but not as badly as many parts of the country.

What did you change or do differently in this economy that you plan to continue doing? Evaluate risk on new locations and ventures more closely. Nothing is a "gimme" anymore.

How do you forecast for your business in this economy? I really read all the industry publications, as well as data sources, such as Sandelman's. It is also so important the franchisor is using their resources to keep us current on how not only our category is performing but how we are performing relative to the category.

Where do you find capital for expansion? Long-term solid banking relationships.

Is capital getting easier to access? Why/why not? Because of our 20 years in business with successful restaurants, we have been very fortunate and not had lending issues. A big goal in the past has been to pay down debt quickly so we look very good on our debt ratio. Individuals just getting started are finding it tough to get initial lending or having enough cash to put down.

Have you used private equity, local/national banks, other institutions? Why/why not? Local community banks are wonderful and still consider service an important part of banking.

What kind of exit strategy do you have in place? Thinking about it.

What are you doing to take care of your employees? Opportunities for advancement, health care, vacation, sick leave, bonuses, awards, and a place to work where they feel appreciated.

How are you handling rising employee costs (payroll, healthcare, etc.)? Voting for politicians who are sensitive to the restaurant industry needs. Someone pays somewhere. At the end of the day, rising costs have to be passed down to consumers.

How do you reward/recognize top-performing employees? Advancement, bonuses, performance raises based on measurable accomplishments, employee award programs.

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BY HELEN BOND

Home Field Advantage

"Retired" couple serves up subs for second career

If you've played, coached, or watched a sport on the University of South Carolina (USC) campus, there's a good chance you've eaten a Firehouse Sub from Judy and Charlie Divita.

The Divitas, operators of six Firehouse Subs in the greater Columbia, S.C., area, including one nestled in the heart of the USC campus, made their competitive mark by developing a proprietary customer database catering to visiting college sports teams. Their blueprint has evolved over the years to include a commitment to all facets of educational life and the communities their restaurants serve. This synergy between business smarts and higher learning is a natural for the Divitas, winners of *Multi-Unit Franchisee* magazine's 2012 MVP Innovation Award.

The couple, both quality specialists, are now knee-deep into their second career and are making the most of it. Charlie,

NAME: Judy and Charles Divita

TITLE: Owners

COMPANY: Divita Concepts Group, LLC

NO. OF UNITS BY BRAND: 6 Firehouse Subs

AGE: Charles Divita, 69, Judy Divita, 65

FAMILY: Four children, seven grandchildren

YEARS IN FRANCHISING: 9

YEARS IN CURRENT POSITION: 9

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2012 MVP *Innovation Award*

FOR BRINGING A NEW AND UNIQUE CONTRIBUTION TO YOUR BRAND

Why do you think you were selected for the Innovation MVP Award? It was our distinct honor simply to have been nominated for the 2012 *Multi-Unit Franchisee* magazine's MVP Award. The announcement that we actually won one of the six awards was beyond humbling to us—humbling because we are keenly aware of the thousands of excellent operators and franchisees who accomplish remarkable results for their businesses, brands, and communities on a daily basis. We are deeply appreciative of the guidance, blessing, and support of Firehouse Subs of America in every aspect of our business. FOA's endorsement and submission of our nomination truly was as gratifying to us as the award itself.

We suppose we were selected because our application revealed that we are doing some very important things for a small franchisee to be successful. Among these are: staying customer-focused in good times and bad; remaining true to the brand's mission, standards, and core values—Walk the Talk; maintaining our relationship with our franchisor as a mutually respectful partnership focused on shared goals; accepting our local responsibility for improving all aspects of operations and customer service by developing or enhancing basic tools and systems; striving to give back to our community, our employees, and to our colleagues in our Firehouse community; and never accepting the status quo as the best we can do. We firmly believe that we are infinitely perfectible—meaning there is no end to how good (or how great) we can become. Our only two options are continuous improvement or regression.

Give us an example of innovations you have created and used to build your company. We developed and use our Firehouse Subs data management system, a proprietary database for such purposes. We have also improved catering execution with the development of our "Pinksheet" for order taking, customer information capture, and planning. In 2009, we received a "Smoking Idea" Award from Firehouse headquarters for making our Pinksheet available to the system. Our proprietary database and Pinksheet allow us to track and communicate with customers effectively. We have nearly 6,000 customer records, 2,000 companies, and 1,000 delivery locations in our database. We know who ordered what, when and where it was delivered, frequency and amount of delivery, etc. In addition, we can handle all of our invoicing and receivables with the database. Other innovations include:

- The Weekly Supply Sheet: an operations tool we use to provide office supplies to the managers on a weekly basis. This useful service allows managers to focus their time and attention in the store, as opposed to going to an office supply store to buy ink, paper, etc.
- Our Yearly Budget: derived from an idea and format form used to manage corporate stores in Jacksonville. We modified the design and connected links to include the sales, labor, and food costs. We use this tool to determine the majority of our variable costs. The tool also doubles as the bonus calculator for our GMs.

As a multi-unit franchisee, how have you raised the bar within your company? We have set a great example for school involvement, working with school administrations and PTA/PTO organizations. In 2006, we were Lexington (S.C.) School District Business Partner of the Year, an award we shared with Intel and Coca-Cola. We frequently support school fundraisers and charitable activities. We have also served as a role model for developing an effective university-based Firehouse Subs location though our acceptance within and contributions to the university community and our marketing to home and visiting teams.

What core values do you feel led you to winning this MVP Award? We fully subscribe to the core values of Firehouse Subs, namely treat people fairly, stay customer-focused, set high standards, work hard and learn, and give back to the community.

69, is a former university full professor and consultant, and Judy, 65, boasts a corporate background of organizational development, training, and human relations. Instead of relaxing into the world of retirement, the couple launched Divita Concepts Group in 2003, eager to put their skills to work as business owners in a way that would offer them more control of their future.

The move to Columbia—the college town where the pair, married 39 years, first met—was purposeful, yet inspired by more than just feeding piping hot subs to the hungry student masses. "We wanted to be part of a whole life of a university," says Judy. "It's new kids coming in all the time, and every four years you see a great transformation of your customer base. It's just fun for us."

In 2006, the Divitas opened their third restaurant on the USC campus, a strategy that would serve as a springboard to new business opportunities. To boost weekend traffic, they began to market their subs to opponents in town for the more than 400 annual Gamecock sporting events held on campus. The home teams soon became big fans of Firehouse Subs too. The Divitas expanded the restaurant's presence with athletic team and summer camp sponsorships and developed an award-winning customer database and catering execution system.

> **"We subscribe to the core values of Firehouse Subs, namely treat people fairly, stay customer-focused, set high standards, work hard and learn, and give back to the community."**

With projected 2012 revenue of $4.5 million, the Divitas always look for novel ways to build business. "The franchise gives you the basic things to put you in business pretty quickly," says Charlie. "What we found is that you have to take it beyond that and be creative to come up with new and novel ways of doing things that are particular to your company and your community."

The Divitas say they are a team with complementary strengths. Charlie, who

PERSONAL

Key accomplishments: Opened six successful, profitable, stores in eight years in a midsized market that employ approximately 100 people. Developed a comprehensive database for managing customer contact, marketing, catering, invoicing, and numerous other aspects of our business. Donated life-saving equipment to three Greater Columbia fire departments (Irmo, West Columbia, and Columbia) and to one private school through the Firehouse Subs Public Safety Foundation. Recognized as Firehouse Subs National Franchisee of the Year runner-up, 2004; and Firehouse Subs National Franchisee of the Year, 2006. Achieved regional recognition from Firehouse Subs for the highest percentage of catering sales in a store and largest percentage comp sales improvement (both in 2011). And 2012 MVP Award Winner for Innovation, *Multi-Unit Franchisee* magazine.

Biggest mistake: Having too much patience and taking too long to dismiss employees who don't meet (or who are slow to meet) expectations, in the hope that additional efforts to develop them will pay off. This very rarely works.

Smartest mistake: Our failure to explore other concepts when deciding to invest in Firehouse Subs turned out to be a positive. We're thrilled that we're with Firehouse. Had we considered other options, we might never have had the success we've enjoyed with this brand.

How do you spend a typical day? 6 to 8 a.m.: email, sales analysis, planning; 8 to 11 a.m.: marketing, invoicing, vendor coordination and payments, GM communications; 11 a.m. to 1 p.m.: catering and support within stores as needed; 1 p.m. to 6 p.m.: meetings, planning and administrative tasks.

Work week: Typically 5 to 6 full days.

Favorite fun activities: Reading, visiting with family, developing our business.

Exercise/workout: Mainly walking.

Favorite tech toys: Computer, smartphone, and Kindle. Filemaker Pro Software used to refine the database we developed for managing our business.

What are you reading? *Tipping Point* by Malcolm Gladwell; reread of *Good to Great* by Jim Collins; *Filemaker Pro 11* by Susan Prosser and Stuart Gripman.

Do you have a favorite quote/advice? "If everything is going well, you've obviously overlooked something." Never assume you have everything under control or that all is well. There is always room for improvement and always opportunity to avoid or minimize the consequences of adverse future circumstances. Other favorites: "Those chains that bind us most tightly are those that we fashion for ourselves;" "You are what you think and what you think is what you do;" and "Something is infinitely better than nothing."

Best advice you ever got: Follow your bliss. Do what inspires and captivates you.

Formative influences/events: 1) Growing up in sound families that were focused on family and community. 2) Meeting as future husband and wife over 40 years ago. 3) Working closely with our graduate school professors and becoming a part of the professional networks they opened to us. 4) Gaining breakthrough employment opportunities at different junctures in our "first careers." 5) Successfully pursuing related first careers in different venues (Judy in business, Charlie in higher education and consulting) allowed us to combine skill sets and experiences useful in the formation of our own company.

How do you balance life and work? Life and work are well integrated. We are a husband-and-wife team with strengths that complement one another. We enjoy our "work" and find it fun, challenging, and full of opportunities for learning and growing as a couple and as individuals.

served three years on the Firehouse Subs national marketing board of directors, focuses on business development, marketing, and customer relations. Judy pays attention to managing costs and human relations.

"I can't see the trees for the forest and Judy can't see the forest for the trees," says Charlie. "She is much more detail-specific, mind-down, and much deeper into the details of something than I am. I think that I have a bigger picture vision of things."

The couple are most proud of their strong connection to the community and their work through the Firehouse Subs Public Safety Foundation, highlighted by a 2008 donation of lifesaving equipment to two city fire stations. The gesture honored the six USC students and one Clemson University student who died in a beach house fire. The tragedy hit close to home. The couple's own daughter, Ryan, a former USC student, was burned in a 2003 car accident and spent six weeks in a Georgia hospital burn unit.

Forging community ties also helped the Divitas creatively build the Firehouse Subs brand in their early days when there was no marketing budget and little name recognition.

"When we came to Columbia, Firehouse was not known very broadly in South Carolina, nor in Columbia," says Judy. "So it wasn't like you could open the doors and they will come. You have to get out and make yourself known—who you are, what your brand is, and what you offer. It just takes that customer building, one at a time, to make it clear that this is the place you want to go." MUF

MANAGEMENT

Business philosophy: Essentially the Golden Rule with a focus on respect for people, honesty, and developing opportunity for others: opportunity for customers to have a great dining experience; opportunity for our employees to advance themselves through our business; and opportunity for the community to be a better place because of our business presence within it.

Are you in the franchising, real estate, or customer service business? Why? Fundamentally, we are in the customer service business. No other aspect of our business can achieve its maximum potential (or matter) without unending attention to excellent customer service.

As an operator, what are the two most important things you rely on from your franchisor? Expert knowledge (branding, marketing, purchasing, real estate, financial modeling, etc.), and functional, efficient, and innovative management and operational systems and support.

What gets you out of bed in the morning? Inspiration comes from the challenge of developing a successful, role-model business—to be a better business today than we were yesterday.

What's your passion in business? Developing the best-in-class restaurants in our market through excellent service to our customers, and being recognized as such within and outside of the market.

Management method or style: Participatory input and analysis when developing key plans and making key decisions. Using data and values to guide decision-making. Always manage our business in a manner that makes customer service and satisfaction paramount.

Greatest challenge: 1) Maintaining a shared culture and commitment to core values as our number of restaurants and number of employees grow. 2) Finding, recruiting, hiring, continuously developing, and long-term retention of great managers.

How close are you to operations? We either are in the stores or have multiple daily communications with managers.

Have you changed your marketing strategy in response to the economy? We have reduced coupons substantially, and instead doubled our dollars spent on radio from 2 to 4 percent. At the store level, we focus more on operational improvements and on customer service with the objective of turning each customer into a member of our marketing department.

How is social media affecting your business operations? Overall, the effect is positive in terms of promoting customer awareness and providing a forum for customer input and telling our story. The use of social media as a marketing tool is primarily initiated by Firehouse Subs headquarters. HQ has social media experts on staff that work closely with the marketing department to present periodic promotions and continuously interact with customers.

How do others describe you? Fair, approachable, involved. Committed to Firehouse Subs' brand standards and core values.

How do you hire and fire? Hire: The GM of each store hires hourly employees. Applicants are screened for background and education then interviewed and tested. The GM's applications are screened by a two- to three-person team, who subsequently check references and interview promising candidates up to three times before offering a position. Fire: Problematic employees are given verbal and written performance feedback, which highlights specific performance improvement requirements and timelines. Coaching and mentoring support is provided. The employee's failure to meet performance expectations results in termination for cause.

How do you train and retain? GM pre-service training is largely a hands-on process, complemented with mastery of Firehouse Subs' study materials and manuals and our own materials and checklists. Our director of business development, Nick Holt, works with trainees (typically over a six-week period) to prepare them to be certified in the Firehouse Subs week-long GM class in Jacksonville. Before going to Jacksonville, they are pre-assessed independently in a regional training store operated by our area representatives. Of the GMs we have trained, none has scored below 95 on their certification exam.

Retention: We are very involved with the GMs. Our director of business development interacts with each GM at least every other day and meets with each of them at least once per week. We maintain a familiarity of their style and store operations and issues. We reward our managers with a quarterly bonus program that is a percentage of their bottom-line earnings if they beat their budgeted bottom line. The newest step we're taking is to build more of a team atmosphere, conducting group GM meetings at least once monthly, rotating the meeting store to store, and pushing for involvement from everyone to build an atmosphere of openness, trust, teamwork, and a shared culture.

How do you deal with problem employees? This depends on what is a "problem employee." It's typically unique to the situation. In essence, we address issues specifically and directly, using a documented, progressive disciplinary process to either change or terminate an employee.

BOTTOM LINE

Annual revenue: Our target this year is at least $4.5 million in sales revenue. We are on pace to meet or beat this target.

2012 goals: We plan to open at least one new location, while growing sales in current locations by at least 8 percent over 2011. Our enduring goals are to complete our yearly development plan and operate within our annual budget. Other goals include: 1) solidify and strengthen our management team: a strong GM for each store and a training mechanism through assistant manager roles to provide upward mobility for key employees within our system; 2) systematically strengthen our customer service culture, training, and operations: Service Leader awards, Rookie Book training and testing, an internal Fire Report, and development of a training orientation program for all stores and a few key trainers in each store.

Growth meter: How do you measure your growth? We measure it on the bottom-line performance. We are always asking two questions: Are we growing sales—opening new stores or growing revenues in existing stores? Are we controlling costs well enough to run an ever more profitable company?

Vision meter: Where do you want to be in 5 years? 10 years? 5 years: operating at least nine stores, with at least nine certified GMs; add three salaried positions to our existing infrastructure (an assistant manager of operations, an assistant manager for catering, and an assistant manager for training); and move the day-to-day management and operations of our business increasingly under the leadership and direction of our director of business development. 10 years: possibly expand our inventory to 11 to 13 Firehouse Subs stores; and possibly add another brand. Our key people today will be better business people who are better off financially, have better skill sets, and have brighter prospects for growth. Expand our business ownership and infrastructure to enable us (the present owners) to spend less and less time in daily management and operations and to ensure the continuation, health, and growth of our company beyond our lifespan.

How has the most recent economic cycle affected you, your employees, and your customers? Ironically, from our business point of view, it has been good for all parties mentioned above. We have heightened our attention to financial management and vastly improved operations; we better train and invest in our employees; and we've increased our expenditure of marketing dollars. Our customer gets a better experience and expects more of the Firehouse brand because of our improvements and because of headquarters' commitment to growing our brand.

Are you experiencing economic growth/recovery in your market? Yes, to the tune of 18 percent positive comp sales over 2011, up 7 percent from 2010 and 3 percent over 2009.

What did you change or do differently in this economy that you plan to continue doing? Don't throw coupons at customers or rely on discounting to build the business. Instead, we will build customer loyalty by improving service and operations, thereby continuing to increase the value of dollars customers spend in our restaurants.

How do you forecast for your business in this economy? We know the ins and outs of every line item of each store's P&L. We build a comprehensive budget based on all of these factors. The biggest and most difficult variable to forecast is sales. This year we worked with each GM to set sales targets based on our goals for each individual store.

Where do you find capital for expansion? We've developed an open, mutually respectful, and long-term relationship with our bank. They have partnered with us to pursue a sound, incremental development plan for expansion in the Columbia market.

Is capital getting easier to access? Why/why not? Capital acquisition is easier than two years ago, but still somewhat difficult. The amounts loaned and terms are somewhat better, but considerably more documentation, analysis, and evaluation are required to secure necessary capital. A proven track record of performance that the bank knows firsthand is invaluable. The additional scrutiny is not unwelcome. It is an inevitable consequence of changes in bank regulations that, in the long run, may prove best for all of us.

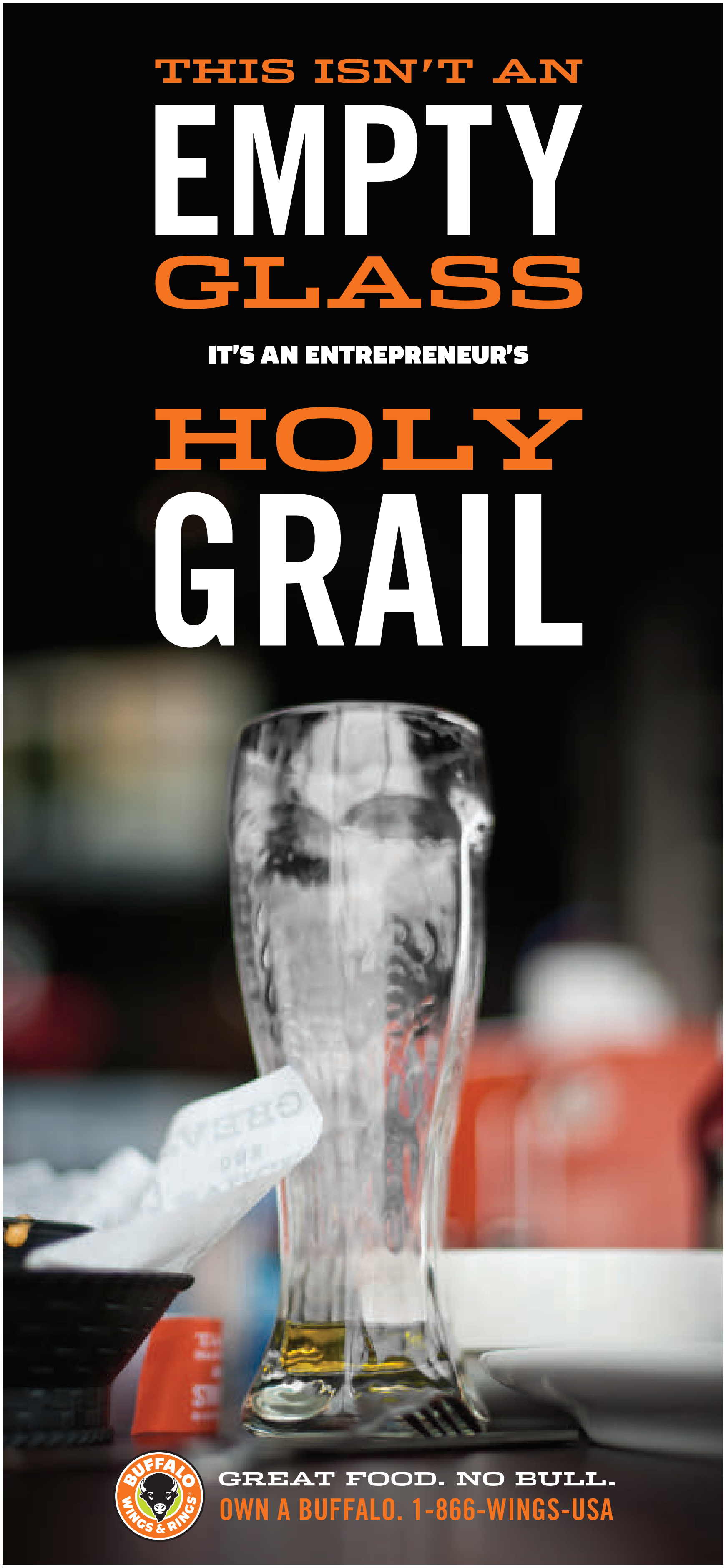
Have you used private equity, local/national banks, or other institutions? Why/why not? We have only used local banks. Our investigation of other sources has typically found them to be too cumbersome. We like working with local people who know us and who know our business at a personal level.

What kind of exit strategy do you have in place? It's an evolving one. We're presently putting an infrastructure in place that can support the management of key business functions. We're grooming several key employees to assume ever-increasing responsibilities for growing and running the business as we move toward full retirement. We want our business to continue on sound footing, with a bright future after we've departed. We anticipate our increasing disengagement unfolding over the next few years.

What are you doing to take care of your employees? We are going to introduce some form of health insurance for our management staff, hopefully this year. We provide a bonus program for GMs and always try to promote from within to fill positions. Within the next few years, we hope to have a tuition support program for key leaders in our company. Many of our employees are students. We do everything possible to accommodate their schedules. We consider successful pursuit of their studies as a priority we support.

How are you handling rising employee costs (payroll, healthcare, etc.)? So far, by scheduling tighter and training better. We have a higher average payroll and lower average staff size than two years ago, by about one dollar more per hour worked and one less employee per store. Like nearly every small business owner, we are extremely concerned about how the new health care and labor laws will affect our ability to operate a successful enterprise.

How do you reward/recognize top-performing employees? Our Service Leader Program recognizes our most valued attributes in employees, that is, genuine heartfelt customer service. We recognize one employee per location per month and place a plaque in the respective stores highlighting the employee's accomplishments and contributions to our customers and our business.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BY DEBBIE SELINSKY

Wow!

This mega-zee shows how it's done

A conversation with mega-franchisee Ed Doherty is invariably sprinkled with a lot of "wows." He uses "wow" as an adjective, as in the "wow factor," and he uses it as a noun, as in "that's a wow." But he most often uses it as a verb. "We want to wow our guests every time. We want to wow our employees and our suppliers. And an okay is not a wow," he says.

Doherty, now the 12th largest franchisee in the U.S., jokes that he wishes he'd trademarked his use of "wow," because it was part of his company's mission statement long before it became everyday language.

NAME: Ed Doherty

TITLE: Chairman and CEO

COMPANY: Doherty Enterprises Inc.

BRANDS: 61 Applebee's, 30 Panera Bread, 2 Chevys Fresh Mex, 3 Shannon Rose Irish Pub, 1 Spuntino Wine Bar & Italian Tapas

AGE: 65

FAMILY: Wife Joan, and three children: Tim, 34; Shannon Portell, 32; and Kerry, 27, all of whom are in the business

YEARS IN FRANCHISING: 27

YEARS IN CURRENT POSITION: 19

That passion, partnered with the success of his 97 New York- and New Jersey-based restaurants (five brands, including Applebee's and Panera Bread), garnered Doherty *Multi-Unit Franchisee* magazine's 2012 MVP Spirit of Franchising Leadership Award. He adds that honor to his company's recent selection as Applebee's Franchisee of the Year (third consecutive year) and Panera Bread's equivalent award, Featured Operator of the Year, for exceptional leadership and growth in operations, sales, profits, people, and communities.

Doherty's roots in the restaurant business trace back to his youth when he

2012 MVP *Spirit of Franchising Leadership Award*

FOR EXTRAORDINARY AND ENDURING PERFORMANCE, GROWTH, AND COMMUNITY GIVING

Why do you think you were you selected for the Spirit of Franchising Leadership Award? It goes back to the goals of a franchisee to be a great operator and a great neighbor to the community. If you do that consistently and develop a connection with your people and your community, you'll be successful.

As a multi-unit franchisee, how have you raised the bar within your company? Our passion for involvement with our people and our communities is at a significantly higher level than at many other companies. If you always say yes to charitable needs in the communities of 97 restaurants, people are going to recognize that you're a good neighbor and bring you their business. We've built a strong relationship with the U.S. Marines and Toys for Tots over the last 10 years, raising nearly $3 million for needy kids in our communities.

Give us an example of innovations that you have created and used to build your company. We established a Wow-A-Friend Foundation to which employees contribute and we match funds. This money is used to help employees with special or crisis needs. When you have 6,600 employees, things come up all the time.

What core values do you have that you feel led you to winning the MVP Award? Our core value is that of wowing our guests every time, wowing our communities every day. We've developed a culture and a passion throughout our organization to live that mission day in and day out. A family eating in one of our Applebee's mentioned to the server that their home had burned down. He not only refused to accept their tip but he pulled $100 out of his pocket and gave it to them to help out. That's the kind of people we have.

worked after school and college to help his mother run a deli. "She worked so hard to provide for me and to put me through college. I got my work ethic and my determination from her," he says.

After college, he went to work for Marriott Corp. where he eventually became vice president and general manager of the Big Boy division. He took a big step himself in 1985, leaving that job to become a Roy Rogers franchisee, buying 19 Connecticut restaurants for $1 million. He turned the losing restaurants around in five years and grew the company to 28 stores.

> **"Our core value is that of wowing our guests every time, wowing our communities every day."**

Doherty and other Roy Rogers franchisees had a rude awakening in 1990 when Hardee's bought the concept from Marriott, he says. "The brand was hurt by Hardee's management, and ultimately all the Roy Rogers were closed down. I had hard conversations with the banks and sold out our leaseholds to Boston Market, McDonald's, and Burger King. One of the hardest things was to tell my managers that there would be no

PERSONAL

Key accomplishments: First is my family. My wife and I have been married 36 years and we have three wonderful children. Secondarily, building a company that is the nation's 12th largest franchisee and the 100th largest restaurant organization.

Biggest mistake: There was never a big, horrible mistake that really hurt us.

Smartest mistake: My smartest mistake was leaving Marriott Corp. to become a Roy Rogers franchisee. At the time, I was vice president and GM of the Big Boy division with more than 1,000 restaurants across the U.S. But if I hadn't left Marriott to become a franchisee, I wouldn't be where I am today.

How do you spend a typical day? No day in this business is typical. One day I'll be doing paperwork in the office, another touring restaurants and saying hello to our people and guests. I'm also on Applebee's franchise marketing panel and Panera's Bread Council, so I may be working on this.

Work week: Basically 24/7 because you're connected all the time. If I'm in town, I work at least six days a week from about 7 a.m. to 8 p.m. On Sundays, I work on email.

Favorite fun activities: Travel is number one. We've been to many exciting places, including Egypt, Dubai, Israel, Vietnam, Cambodia, and India. Our next trip is to Myanmar. We enjoy learning about other cultures and seeing how the rest of the world lives. We all enjoy good restaurants and the theater.

Exercise/workout: I used to exercise four or five times a week; now it's more like once or twice.

Favorite tech toy: iPad

What are you reading? I just finished *The Beautiful and the Damned: Life in the New India* by Siddhartha Deb, and the Steve Jobs biography, which was spectacular.

Do you have a favorite quote/advice? During our training programs with Applebee's, Panera, and our own concepts, we bring our people into the office for a Week of Wow. I address each class as the first speaker. I tell them: "Don't lie and don't steal and treat everybody the way you want to be treated."

Best advice you ever got: Live every day as if it were your last, and don't waste time worrying about things you can't control.

Formative influences/events: My mother was the most influential person in my life. She raised me alone and worked very hard at various businesses in her life without ever taking a day off. Her work ethic and her approach to accepting things the way they are greatly influenced me.

How do you balance life and work? I enjoy what I do, so in my mind work is not a burden. My wife has always been extremely understanding and supportive. She asked that I be around for at least Friday or Saturday night and to try to spend part of Sunday with her, and I've done that. When the kids were younger, to make sure we had the right relationship I coached their sports teams two nights a week and on Saturday.

raises or bonuses, but I made them one guarantee: I would never lay them off and would make part of my deals with Boston Market and McDonald's the requirement that they be hired at the same salary. Over the process of three years, not one was laid off. I saw that as a moral obligation."

In 1993, Doherty was able to acquire the franchise rights for Applebee's in New Jersey and has never looked back. Today he has 61 Applebee's, 30 Panera Breads, two Chevys Fresh Mex, and two concepts he developed with his three children—all of whom work at Doherty Enterprises.

In 2007, he assigned his middle child, Shannon Portell, the task of developing a great Irish pub. That concept, Shannon Rose Irish Pubs, is now doing well in three locations. In April, his youngest daughter, Kerry, led the opening of Spuntino Wine Bar & Italian Tapas, a Clifton, N.J., restaurant with a "cool, New York City meat-packing look" and a list of 42 Italian wines sold by the glass and nine Italian beers. His oldest child, Tim, also holds leadership positions within the company and sits on the board of directors with his mother and sisters.

Doherty also sounds like a proud father when he talks about his employees. He's especially passionate about Doherty Enterprises' Wow-A-Friend Foundation, administered by six people who work for the company (no executives). "The idea is that all our employees contribute something on a weekly basis, whether it's 25 cents or a dollar. Anyone who works

MANAGEMENT

Business philosophy: When I restarted my company in 1993, I knew I needed a vision, which was to be the best foodservice company in the Tri-State area. By best, I mean a goal of zero turnover. Of course you never achieve this, but I wanted to develop a company that if someone is crazy enough to want to work in the restaurant business, they'd want to work for Doherty Enterprises. Our mission statement became: "Wow every guest every time."

Are you in the franchising, real estate, or customer service business? Why? I'm in the people business. It's all about people—the 6,600 people who work for Doherty Enterprises, and the thousands of guests who come into our restaurants every day.

As an operator, what are the two most important things you rely on from your franchisor? Product development and marketing.

What gets you out of bed in the morning? The love of the business.

What's your passion in business? Wowing our guests, our people, and the community.

Management method or style: I'm passionate about what we do. I want us to be best at what we do, so I try to motivate people to believe in our vision and mission so much that they live it every day.

Greatest challenge: Keeping all our people focused on what's really important and not getting tied up in the minutiae of the restaurant business.

How close are you to operations? Very close with all five brands.

Have you changed your marketing strategy in response to the economy? How? We really haven't. We've been blessed that we've not been hurt by the economy. In the 19 years since I repositioned the business in 1993, we've had only one negative comp sales year and we were nine-tenths of a percentage point down then.

How is social media affecting your business operations? It's not affecting operations but is changing how we approach marketing. We've hired someone whose primary job is social media, making sure we're on Facebook, Twitter, and foursquare. These are monitored so that if a guest posts a problem we can respond within 24 hours and not let things slide. It creates one-on-one communications.

Personality: According to the Enneagram personality system, I'm a "challenger," which means that I'm passionate about things, driven, and want to be best at what I do. I worry about failure and am at my best when caring about people.

How do others describe you? Passionate and driven and caring. At my worst, I get too intense. I'm working with a life coach to make sure I don't overwhelm people with my passion.

How do you hire and fire? As a company, we hire for attitude first, then we train people. We don't fire people—people fire themselves.

How do you train and retain? We put a lot of time and effort into training, which is ongoing for as long as you work for our company. Retaining is treating people the way they want to be treated—fairly. We provide benefits for all our full-time people (30 hours or more) if they want them.

How do you deal with problem employees? Between HR and our training staff, we have 14 people working with our employees. Our employees are reviewed by their supervisors every month for the first year they're here, and after the first year, every three to five months. This way there are no surprises—everybody knows where they stand and if they're not living up to our expectations. If we have to make a difficult decision, I get HR involved to make sure our management team handles things correctly.

for us and faces a unique financial crisis can apply for a grant—not a loan—from the foundation to help them get through the crisis," he says.

At first the foundation raised $35,000 to $40,000 a year. Two years ago, Doherty gave the board of directors a challenge. "I said, 'If you can get 3,500 people [out of the company's 6,600 employees] enrolled and raise $75,000, my wife Joan and I will match it. We can do a lot more with $150,000.' Well, they raised $79,000 that year and we matched it. Last year, we challenged them to increase to 4,500 contributing and to raise $100,000 and we'd match it. They got over 4,500 and raised $125,000 and we matched it. That gave us a pool of $250,000 to help people. Applicants don't even have to contribute to get a grant. This project makes people feel good about working for our company."

An especially poignant example of the foundation's good came when a cook at one of the restaurants went out with his buddies after work to celebrate his last night before his fiancée would give birth to their child. When the young man left the bar, he was murdered. The next day his fiancée went into the hospital to have a C-section. "His GM explained to the company what had happened and asked if Wow-A-Friend could give anything to help her," Doherty says. "She'd never worked for us and they weren't even married, but the foundation made a significant contribution. My wife and I matched it. There are tons of stories like that. Our people have really gotten into helping each other and treating others well. That's how we've grown our business."

In addition, the company, the 100th largest restaurant organization in the country, asks that management and crew volunteer twice a year at community charitable events. "They don't have to do it, but we see it as part of teaching young people to give back to the community and to society," Doherty says. "With all these types of things, you retain people. Our crew turnover for last year was under 75 percent, and for our management it has been around 10 to 12 percent over the past five years, which are great numbers for this business. We've never stopped raises, benefits, or bonuses and we continue to grow."

Most importantly, he adds, "We continue to wow." MUF

BOTTOM LINE

Annual revenue: $340 million for 2012

2012 goals: We keep things simple and have the same goals and objectives every year. Every year, our goals including reducing management turnover to below 10 percent and reducing team member turnover to less than 50 percent.

Growth meter: How do you measure your growth? We look at comp sales, at transaction averages.

Vision meter: Where do you want to be in 5 years? 10 years? My number one responsibility and my 5- and 10-year goal is to make sure that everybody who works for me doesn't have to worry about losing their job. If they do a good job, they'll have opportunities to grow and get promoted. I'll continue to open restaurants that are profitable at the right level—not just big to be big. As I get older, we'll put our succession plan in place.

How has the most recent economic cycle affected you, your employees, your customers? I'm a lucky person. I was concerned that there might be a recession, so I went out and refinanced and lowered our interest rates and got a line of credit for future growth in December 2007. When the world fell apart in 2008, we were already set. We've opened multiple new restaurants every year since then and were able to remodel all our restaurants. The economy makes it challenging, but we haven't had to reduce labor or lower prices. Our guests get the same great service in nicer facilities.

Are you experiencing economic growth/recovery in your market? Yes, there is slow economic growth. The biggest challenge for the restaurant industry today is too many seats for the number of guests. No market is hurting for restaurants. Our overall New York metro area is doing reasonably well.

What did you change or do differently in this economy that you plan to continue doing? We've continued to grow, remodel, offer salaries, raises and bonuses, and reinvest in training. For a couple of years, we stopped our GM convention, but we reinstituted it last year and took them to Vegas for four days of business and fun.

How do you forecast for your business in this economy? We always forecast positive sales, and we've always achieved them. We make our budgets as reasonable as possible so our managers make money and get bonuses.

Where do you find capital for expansion? Since we refinanced in 2007, we have the ability to remodel and build five to eight units a year without going out for funds.

Is capital getting easier to access? Why/why not? It is for franchisees in tier-one concepts, maybe in tier two. It's more expensive today than four years ago; banks want more these days.

Have you used private equity, local/national banks, other institutions? Why/why not? I've never used private equity because I like to be the guy who makes the financial decisions. We're too big for local banks, so we use national banks.

What kind of exit strategy do you have in place? I don't have one in place, but I have a succession plan. In the next year or so, I'm looking forward to having our president become CEO and I'll be chairman. Whether my children have the inclination or ability to run the company, time will tell. They're still young, and they're on our board of directors. My plans will keep the company running whether I'm alive or involved or not.

What are you doing to take care of your employees? The most important thing I'm doing for my employees is ensuring that they will have their jobs and opportunities to advance if they work hard at wowing our guests every day.

How are you handling rising employee costs (payroll, healthcare, etc.)? We absorb most of it. We have wellness programs in place to try and create more awareness throughout the organization to help keep insurance costs down long term.

How do you reward/recognize top-performing employees? Every management employee and every employee in a support staff role in the company is eligible for bonuses. We have a 401(k) program, which I match 50 cents on the dollar.

BY HELEN BOND

A Life of Service

From refugee to JIB's largest franchisee

It's easy to see why Houston-based franchisee Atour Eyvazian was honored with *Multi-Unit Franchisee* magazine's 2012 MVP Noble Cause Award. His story of a treacherous escape from war-torn Iran at age 19, followed by his move to the U.S. to achieve the American dream as Jack in the Box's largest individual operator, writes itself. Along the way, he has practiced business the same way he lives life—with passion and unwavering support for those in need.

"I grew up looking at life from a different angle," says Eyvazian. "Every-

NAME: Atour Eyvazian

TITLE: Franchise owner/operator

COMPANY: JIB Management, Inc.; AA Management, Inc.; Cal-Tex Restaurants, Inc.; A&A Restaurants, Inc.; San-Tex Restaurants, Inc.

BRANDS: 109 Jack in the Box

AGE: 47

FAMILY: Wife, Melita; daughter, Emma; son, Ethan

YEARS IN FRANCHISING: 8

YEARS IN CURRENT POSITION: 8

2012 MVP *Noble Cause Award*

FOR PASSIONATE, UNWAVERING SUPPORT FOR THOSE IN NEED

Why do you think were you selected for the Noble Cause MVP Award? I believe my contributions and dedication to H.E.A.R.T. and the people who work with me in my organization are the reasons I was recognized as an MVP winner.

Tell us more about what you did. I am involved with a local organization called H.E.A.R.T. that works with disabled adults providing them with education, training, and jobs that allow them to be more independent than they would be otherwise. I have had personal experiences with a family member who was disabled at the end of life, and this made me feel a close bond with this organization. Helping them grow and help others has provided me the opportunity to be involved and help others who otherwise would not have the help they need. I owe the MVP Award to that experience.

As a multi-unit franchisee, how have you raised the bar within your company? We try to do our best and compare and compete with ourselves. At the end of the day you are your own competition.

Give us an example of innovations you have created and used to build your company. We have put systems in place that allow us to track everything we do through our company portal. Everything is submitted from operations (paperwork) and my office organizes it and puts it into usable data that helps our day-to-day operations.

What core values do you have that you feel led you to winning this MVP Award? Passion for humanity and people.

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PERSONAL

Key accomplishments: B.S., business administration, University of Phoenix; MBA, University of Phoenix; National Restaurant Association (NRA), first recipient of the American Dream Award; honored at the NRA "Faces of Diversity" (2007); Jack in the Box, Regional Franchisee of the Year (2007); Jack in the Box, National Franchisee of the Year (2008); *Multi-Unit Franchisee* magazine's Noble Cause MVP Award (2012); involvement with the H.E.A.R.T. program, and elected president of the board (2012).

Biggest mistake: Not starting earlier in franchising. I feel I would be a lot farther along if I had started earlier.

Smartest mistake: Not starting earlier in franchising. Delaying my involvement with franchising afforded me the ability to attend college and earn my MBA, an accomplishment I might not otherwise have done if I had started earlier.

How do you spend a typical day? Involved in the day-to-day operations of the business.

Work week: 70-plus hours.

Favorite fun activities: Spending time with my family and children.

Exercise/workout: I try to work out four to five days a week, weight lifting for the most part.

Favorite tech toys: iPad

What are you reading? *Great by Choice* by Jim Collins.

Do you have a favorite quote/advice? "There is no substitute for hard work." (Thomas Edison)

Best advice you ever got: Work with your people and you will go far in business.

Formative influences/events: My upbringing and coming to the United States. Starting from the bottom of the company and working my way to the top.

How do you balance life and work? Merge both personal life and work life as closely as possible.

thing we do, every line of work, is about serving people in some capacity, about adding value to somebody's life. At the end of the day it is all about what you do for other people."

Eyvazian's journey began in 1984, when his parents helped him escape across the rugged mountains of Iran on foot, only to be arrested and jailed as he crossed into Turkey. The young man remained imprisoned for 40 days until he bribed his way out with money his mother had sewn into his jeans.

When Eyvazian eventually landed in the United States, a relative took him in and suggested a job at a Jack in the Box in California. He says these two events—and the birth of his children—are the most significant in his life. He will forever be loyal to both the country and business that so lovingly embraced him, says Eyvazian, who became a U.S. citizen in 1989, the same year he joined Jack in the Box's corporate office.

Eyvazian started at Jack in the Box scrubbing toilets as a janitor, ravenously learned to speak English, and eventually worked every job behind the counter until, in just two short years, he became a restaurant manager. He quickly rose through the company to ultimately serve as manager of guest service systems, overseeing almost 700 restaurants. The

MANAGEMENT

Business philosophy: People are everything. If you lead your people to success and provide them with the tools they need to succeed, you will succeed.

Are you in the franchising, real estate, or customer service business? Why? I am in the people business. Everything we do in life deals with people. Without people, there is no business. If you remember that, and learn to be a part of that "people business," you will be successful.

As an operator, what are the two most important things you rely on from your franchisor? Support of the brand and systems of the brand, which they have been extremely good to me on.

What gets you out of bed in the morning? My drive. I know I have a business to take care of and people rely on me for that. They are the reason I move forward.

What's your passion in business? The people who work with me in this company and the satisfied guests that frequent my establishments. Knowing that we provide a service to people that makes them happy makes my day.

Management method or style: I am very hands-on from the beginning of the process to the end. I like to see everything through to the end. I learn and understand all aspects of whatever needs to be done and I pass that knowledge on to my employees. Once they understand the process, I delegate to them to move the project forward.

Greatest challenge: Finding the right people and training them so they, too, can be successful, not only for the company, but for themselves as well.

How close are you to operations? I am hands-on 24/7. I am in the day-to-day operations overseeing everything.

Have you changed your marketing strategy in response to the economy? How? Of course. Every business has had to adapt and change to this economy and we are no different. We have to be flexible to what the people need and expect of you and meet that demand in order to continue being successful.

How is social media affecting your business operations? Jack in the Box has always been a part of social media and today is not any different. Everyone knows who Jack is and he has a big fan base. People love the character and love the food.

How do others describe you? Ambitious, fair, and generous. I will not ask anyone to do something that I would not do myself.

How do you hire and fire? Try to find people that fit the position. We have an interview process we follow for hiring.

How do you train and retain? Jack in the Box has great training programs and systems in place and has made it easy for franchisees to train our employees.

How do you deal with problem employees? We don't see employees as problems. We see problems as problems and treat the problem.


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Jack in the Box tuition-reimbursement program allowed him to earn an undergraduate degree and a master's degree in business administration. Some smart real estate investments opened his world to franchising ownership opportunities. In 2007, he moved his wife and two children to the Houston area, where he now operates 109 Jack in the Box franchises. (When we last visited with Eyvazian two years ago he had a "mere" 59 Jack in the Box locations).

The recipient of numerous awards—including The National Restaurant Association's first-ever American Dream Award— the ever humble Eyvazian is uncomfortable with the spotlight. The MVP Noble Cause Award was an emotional moment that he credits to the experiences he has gained working with the H.E.A.R.T. (Housing, Entrepreneurship, And Readiness Training) Program. He currently serves as chairman of the board for the program, which provides real-world training for low-income adults with developmental disabilities.

Eyvazian will never take his freedom for granted. He is passionate about encouraging others to succeed and believes in loyalty, building relationships, delivering what you promise, and never giving up. And he describes luck as "Labor Under Correct Knowledge," something that happens when you don't give up.

"No matter what we go after my father used to tell me, "When you fall, don't stay down. Get up and run. That is how you win," says Eyvazian. "There is no substitute for hard work." MUF

BOTTOM LINE

Annual revenue: NA

2012 goals: To be better than 2011.

Growth meter: How do you measure your growth? By the growth of my people.

How has the most recent economic cycle affected you, your employees, your customers? The same as it has affected every business, employee, and customer in this economy.

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

What did you change or do differently in this economy that you plan to continue doing? Going back to the basics of the business.

How do you forecast for your business in this economy? By looking at the trends.

Where do you find capital for expansion? From banks.

Is capital getting easier to access? Why/why not? It has become easier, compared to last year.

Have you used private equity, local/national banks, other institutions? Why/why not? I have used local banks in the past. I have a great relationship with both national and local banks.

What kind of exit strategy do you have in place? My plan is to keep the business and take care of my family.

What are you doing to take care of your employees? We treat them as well, if not better, than they want to be treated. We provide our employees with opportunities to grow within the company.

How are you handling rising employee costs (payroll, healthcare, etc.)? It has become part of doing business in our industry.

How do you reward/recognize top-performing employees? We conduct regular award ceremonies where employees receive awards and trophies as well as bonuses and employee incentives.


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Ready, Fire, Aim

BY DEBBIE SELINSKY

Learning franchising on the fly

When Kevin Osterfeld's "dream job" as a stockbroker didn't turn out so dreamy, he decided to switch things up.

"When I was a stockbroker, I would eat at Philadelphia Steak & Subs in downtown Cincinnati. I loved the food, so I decided to buy the restaurant, which would become a Penn Station East Coast Subs restaurant," he says. "I knew nothing about the restaurant business. I knew nothing about franchising. I didn't really even know how it worked, but I was young and reckless and thought I'd figure it out."

Twenty-five years later, it's clear that Osterfeld did "figure it out." Recipient of *Multi-Unit Franchisee* magazine's 2012 MVP Influencer Award, he now owns 18 Penn Stations in Ohio. He also is an active participant in charitable ventures and franchise organizations and a busy family man.

Despite the positive outcome to his own story, when potential franchisees ask Osterfeld for advice about getting into franchising, he sounds a bit like that old parental maxim: "Don't do as I do—do as I say."

His road to success has not lacked in tough lessons, he says. For example, "I'll never forget that first week in the restaurant when I thought I needed to cut down on labor costs. In the after-

NAME: Kevin Osterfeld

TITLE: President

COMPANY: P.S. MGMT., Inc.

BRANDS/UNITS: 18 Penn Station East Coast Subs

AGE: 48

FAMILY: Wife, 3 daughters

YEARS IN FRANCHISING: 25

YEARS IN CURRENT POSITION: 25

2012 MVP *Influencer Award*

FOR DEMONSTRATING THE PATH TO SUCCESS TO OTHER FRANCHISEES

Why do you think you were you selected for the Influencer MVP Award? I believe I was chosen because long ago I recognized that only three things determine success or failure in this industry. If you develop a system that ensures success in these three areas day in and day out, you will excel.

1) The concept: You must have an enduring concept the public wants.

2) The location: Site selection makes or breaks you. You must become an expert in understanding your guests' habits and needs and choose sites accordingly.

3) The operations: Once Nos. 1 and 2 are determined, execute. The only way to succeed in operations is through your employees. Find the right ones, treat them well, pay them well, and expect a lot from them.

As a multi-unit franchisee, how have you raised the bar within your company? By allowing my employees to see that I will do the most menial tasks right beside them. This instills in them the fact that they are as important to our success as I or anyone else. It's trite, but it's true.

Give us an example of innovations that you have created and used to build your company. I'm not sure how innovative it is, but over the last 25 years, I have taken the operations manual provided by the franchisor and expanded on every aspect of it in the form of my own operations manual so there is nothing encountered at the store level that is not thoroughly addressed with my employees before they encounter it. The most important part of our operations manual is our unwavering insistence that it be followed. We edit and update it twice a year so it remains relevant.

What core values do you have that you feel led you to winning this award? Fairness. I know every one of my employees would tell you I am firm, but fair. Our retention rate of employees is off the scale due in large part to the fact that my employees know, without fail, that if they do an honest day's work, they will be treated well. Since my employees are the bedrock of my business, their retention and happiness is paramount.

Tell us more about what you've done. Pretty much covered above. Since our franchisor is responsible for the products we serve, we make certain every day, all day, that we provide that outstanding product in a way that clearly differentiates us from our competition.

noon in downtown Cincinnati then, it was dead slow, so I sent home everybody except myself and one employee. When a customer came in, I sent the employee to ring him up. He said, 'I don't know how,' and I said, 'Neither do I. I've never worked a register before.' That was a clear indication that I'd bitten off a lot and that it would take me some time to chew it up and swallow."

Osterfeld, a Cincinnati native and graduate of Miami University in Ohio, also recalls the sinking feeling his first major debt gave him. "I lived every day horrified that I couldn't pay back all that debt. But I was 23 years old living in an apartment with no wife or kids, so I worked all the time. That was my greatest motivation: I lived for paying off debt," he says now with a laugh.

> "Since my employees are the bedrock of my business, their retention and happiness is paramount."

Osterfeld also learned the hazards of growing too quickly. "I was dying to expand, so I opened another store that was actually too far on the edge of downtown Cincinnati. It almost took me under."

But Osterfeld soldiered on. And he learned. For his third restaurant, he bought an existing unit that was solid

PERSONAL

Key accomplishments: Going from one store I managed myself at 23 years old and having absolutely no idea what I was doing to buying the rights to and developing the entire Dayton, Ohio market for Penn Station East Coast Subs.

Biggest mistake: Opening my second store before I was ready financially.

Smartest mistake: Every one I've ever made because of the collective indelible impression they have left on me.

How do you spend a typical day? Today is quite different from the past as I am far less hands-on in stores, but my day is filled working with my operations directors and general managers to ensure a quality visit for our guests. With such a fabulous and sought-after product, my focus only needs to be on the guest.

Work week: I'm on call 24/7, and the phone often rings.

Favorite fun activities: Spending time with my family at our cottage in Northern Michigan (Torch Lake), golfing, boating, and dabbling in real estate investment.

Exercise/workout: I work out at the gym three days a week.

Favorite tech toys: My iPhone

What are you reading? Industry periodicals and intermittent novels to lighten the mood.

Do you have a favorite quote/advice? I never learned anything by doing it right the first time. When you make a mistake and pay the price of that mistake, the lesson really sinks in.

Best advice you ever got: I was raised to never forget that by watching the pennies, the dollars will take care of themselves.

Formative influences/events: As mentioned above, I opened my second store in a hurry. It cost me dearly but taught me some crucial lessons about being over-leveraged and needing to find good people, paying them well, and letting them blossom.

How do you balance life and work? By prioritizing. Early on I had to decide every day what was most important on that day and act accordingly.

enough to enable him to keep his head above water as he grew.

In 1991, he approached then-fledgling Penn Station East Coast Subs about buying development rights for three counties of Greater Dayton, since Cincinnati was filling up with the popular sub shops. "When I bought Dayton, I didn't have any internal competition so I went in and cherry-picked the best sites. It made things a lot easier," he says today. "When you develop a market, you learn not only to pick the right sites but to do it with an eye toward developing the whole market."

Osterfeld says his life during early years in franchising consisted almost exclusively of work. Now married and father to three daughters, he sees his younger self in many potential recruits. "Twenty-five years in, it still surprises me how many people get involved having no idea what they're getting into. They're no different than I was. More often than not, they don't understand the time commitment or the capital needs."

And he notes one major shift in franchising since he bought his first store.

"With such a fabulous and sought-after product, my focus only needs to be on the guest."

"Twenty-five years ago, it was onesies, twosies. Now, franchisees who have been around and had success don't want to open one unit. They've got their eyes on a bigger prize," he says. "My own franchisor would prefer to sell to multiple-unit franchisees. If you're going to have a franchisee as a customer, it's easier to have one customer with five units than five customers with one unit each."

Craig Dunaway, president of Penn Station, Inc. describes Osterfeld as a worthy recipient of the MVP Influencer Award for all he does to mentor new and potential franchisees. "Kevin and his team have a long history of excellent operations, local marketing, and business practices that have made them the 'go to' organization for other franchisees to follow. Through his leadership, his company has become the sales leader among Penn Station franchisees in larger, established markets."

Today, Osterfeld, who views franchising as a business model that greatly enhances one's chance of success, offers the following general advice to newbies: (1) Don't be shy about asking

MANAGEMENT

Business philosophy: Pay people well, give them some rope and expect a lot from them. And, be vigilant with every detail every day.

Are you in the franchising, real estate, or customer service business? Why? Strictly customer service—if you win there, the rest will take care of itself.

As an operator, what are the two most important things you rely on from your franchisor? Buying power and quality products.

What gets you out of bed in the morning? The enduring chase to be the best.

What's your passion in business? My favorite day is the day we open a new store and see all the research, effort, and expense begin to pay off. It's exciting to see if I was right about my hopes for that location.

Management method or style: Structure and follow up. I have learned that if you develop the systems, require their use, and constantly follow up to ensure their proper use, everything else will fall into place.

Greatest challenge: Not only finding and retaining great people, but dealing with the ever-growing government hurdles associated with being an employer.

How close are you to operations? Extremely close. In addition to the daily interaction, I hold operations meetings every Tuesday morning for three hours, without exception.

Have you changed your marketing strategy in response to the economy? How? We've changed it very little. We have avoided the temptation to try to "coupon" our way to sales. I strongly believe that if we serve a great product quickly in a friendly atmosphere, our guests will recognize the inherent value.

How is social media affecting your business operations? The primary effect is on marketing. Between email, our interactive website, Twitter, and Facebook, there are infinite opportunities to reach out to people. Since social media is clearly here to stay, we work diligently to incorporate it into our outreach efforts.

Personality: Hard-working, detail-oriented.

How do others describe you? One word: controlling. I view it as an asset, but am aware I often need to let go more than my gut tells me to.

How do you hire and fire? We rarely fire. In our system, we are always traveling at the speed of sound and those who can't keep up inevitably jump off. Hiring is where we spend all of our effort. Our interview process for GMs is extensive—a minimum of four interviews plus a full day's working interview. This is by design because when we encounter those who find this process too exhaustive, we know they wouldn't fit in.

How do you train and retain? Training too is exhaustive. For GMs, it's three weeks of in-store hands-on and then a test. And the ongoing training never stops. Retention is achieved through paying my GMs almost solely on profit. They have great motivation and do extremely well financially.

How do you deal with problem employees? Quickly, consistently, and definitively.

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every question that comes to mind; (2) Learn about leasing before you sign an agreement, because leases make or break businesses all the time; and (3) Don't just look at a three-year horizon—look five to 20 years down the road and consider whether you'll have one unit and pay off your debt or try to do multiple units or an area developer agreement.

Over the years, Osterfeld has built a strong track record of leadership and collaboration. For example, he and a few fellow franchisees started the first advertising cooperative for Penn Station in Cincinnati, and he sat on the franchise's first franchisee advisory council. He also spends time weekly talking and meeting with potential franchisees who contact him. "I'm glad to help. It's rewarding to see people succeed," he says.

"I spend a lot of time sharing. That's what franchising is all about. Look at the buying power today: we buy things so

much cheaper, even with inflation, than 25 years ago. The things the franchisor doesn't provide buying power for, we work on them ourselves. For example, our area's franchisees negotiated as 44 stores with a dumpster service to get better buying power."

As for the future, Osterfeld says he doesn't see his 18 stores becoming 80. "I'm slowly phasing out. I took a partner five years ago and it is our intention for him to buy us out over the next five to eight years. As he takes over more of the daily chores, I'm able to spend more time on real estate, charitable organizations [including the High School Athlete of the Month Scholarship Program], and my family."

The Osterfelds enjoy spending time at their lakeside cottage in Northern Michigan. In addition to golfing, serving as president of his local country club, and dabbling in classic cars and real estate, Osterfeld also coaches volleyball for his daughters' teams. "I've never played a game a day in my life, but I'm learning," he says, laughing at his same-old approach to a new challenge. MUF

BOTTOM LINE

Annual revenue: NA

2012 goals: This year our focus is on making our bottom performers achieve.

Growth meter: How do you measure your growth? Only in terms of same-store sales growth.

Vision meter: Where do you want to be in 5 years? 10 years? Frankly, I'm beginning to wind down in this industry. I will be training someone to take over most of my responsibility as I focus more on family and charitable ventures.

How has the most recent economic cycle affected you, your employees, your customers? I believe it has made my company stronger as we have learned how to deal with adversity beyond our control. Additionally it has "culled the herd" as many of our weaker competitors have disappeared.

Are you experiencing economic growth/recovery in your market? Yes, the last 18 months have actually been very strong.

What did you change or do differently in this economy that you plan to continue doing? The downturn has served as a reminder to stick to the basics. Great food quickly in a clean, pleasant environment is still the winning formula. That has helped reinforce my long-held belief that extensive discounting only serves to erode customer loyalty down the road.

How do you forecast for your business in this economy? Very conservatively. We have based all projections on numbers we have a high degree of certainty we can achieve. This leads to pleasant surprises for our GMs who are paid almost solely on profits. I don't worry about my income because I know if my GMs are doing well, I will be fine.

Where do you find capital for expansion? Twenty-plus years ago I used a combination of conventional bank loans, SBA lending, and some private debt deals. For the last 10 or 12 years I haven't expanded until I could do so through cash flow.

Is capital getting easier to access? Why/why not? Not in the market.

Have you used private equity, local/national banks, other institutions? Why/why not? All of the above. In such a capital-intensive business, it is usually unavoidable. I only caution people not to become overleveraged as I did.

What kind of exit strategy do you have in place? I don't envision a full exit for some years, so I am taking it very slowly and cautiously in finding the right individual to fill my shoes. That began almost five years ago and the training and transition will continue for the foreseeable future.

What are you doing to take care of your employees? We give them a compensation package that far exceeds industry averages. Equally important, we give them the freedom to allow them to use their unique skills to the greatest advantage.

How are you handling rising employee costs (payroll, healthcare, etc.)? We never stop looking for ways to economize. All decisions regarding benefits are passed through our affected employees so we make collective decisions with their buy-in. As a result, sometimes we trim benefits and other times we incur additional costs.

How do you reward/recognize top-performing employees? As mentioned, our GMs are paid primarily through profits, so the reward is built in. The GMs are also eligible for a $10,000 annual bonus based on the overall performance of their store through an extensive top to bottom year-long evaluation process. Additionally, we have a comprehensive bonus program for the balance of our management based on our own monthly evaluation coupled with a secret shopper score.


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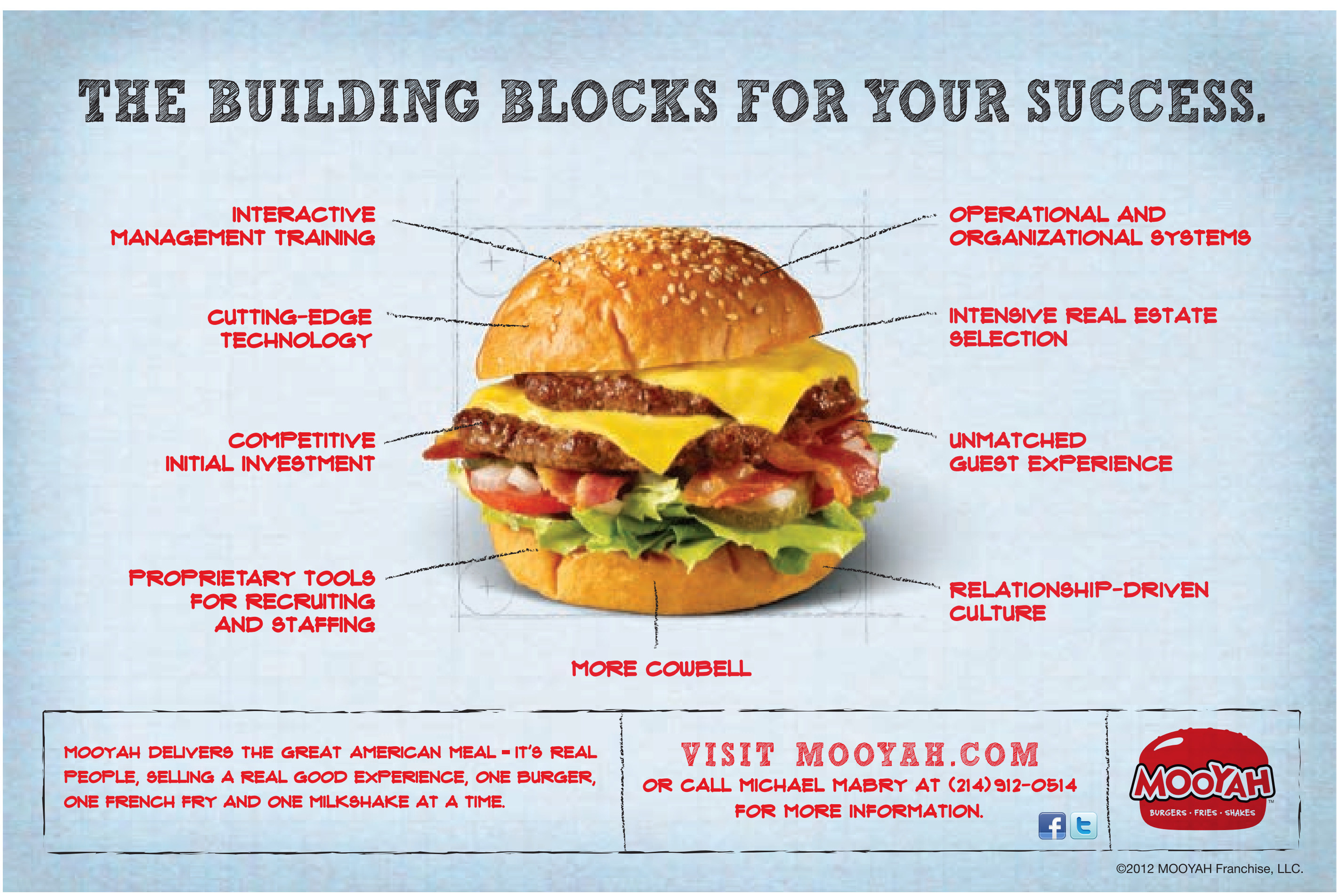
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BY DEBBIE SELINSKY

Living the American Dream

Grateful every day for the opportunity to succeed

When Edwin Sarkissian and his family emigrated from Iran to the United States in 1996, he was a young boy who longed for a computer.

"When we arrived in America, we didn't have much. I remember being so excited to go to Best Buy and look at computers. I couldn't afford one. My mom tried to get a credit card, but because we hadn't been here that long she was declined. I was so sad that day," recalls Sarkissian, now 28.

Fortunately, a church member donated an older computer to him. "It had a lot of problems, but just moving the mouse made me so happy," Sarkissian says. "Now, my laptop and electronic devices are in perfect condition. I take good care of them because I learned how to appreciate everything I have."

To earn money for a bike, the young Sarkissian rode the bus to work at McDonald's. When he got his bike, he rigged it with a radio so he could listen

NAME: Edwin Sarkissian

TITLE: Owner

COMPANY: Six Nineteen Management

BRANDS/UNITS: 3 Fantastic Sams Hair Salons, 3 Best Westerns

AGE: 28

FAMILY: Single

YEARS IN FRANCHISING: 10

YEARS IN CURRENT POSITION: 10

2012 MVP *American Dream Award*

FOR ACHIEVING REMARKABLE SUCCESS IN HIS NEW COUNTRY

Why do you think you were you selected for the American Dream Award? I could say I am living my American dream. I am thankful for living in this country. Otherwise, I wouldn't have gotten the chance to be where I am right now. When we came here, we weren't rich people. I've worked so hard to get what I need, one step at a time. Through those little achievements, I've learned to appreciate everything I have and all the opportunities I've been given. Every morning and every night before I go to sleep, I think, "This is a blessing, be thankful for what you have."

Give us an example of innovations you have created and used to build your company. When I was opening my first Fantastic Sams, my family and friends knew about it, but in central California, most people knew a lot more about Supercuts. I knew I had to do something about branding—to get Fantastic Sams stuck in people's heads. So we got multiple trailers, trucks, and little cars with graphics on them and put stickers and posters everywhere you could put them. We got great feedback from customers, many of whom said they just came by because they liked the name and wanted to see what was going on.

I follow the franchise system but sometimes I try to come up with little, creative ways to stand out. I'm not afraid to do new things. When I try and experience something, I learn what works and what doesn't. One thing we've done is that all our menus in our salons have gone digital. This is important since every kid has an iPhone or iPad. When I was in high school, we had pagers. Now even little kids have cell phones, so we have to consider that we're in 2012 now.

As a multi-unit franchisee, how have you raised the bar within your company? We continue to do more branding and advertising. We do commercials at movie theaters and send out crazy stuff to random places. We want people to know we're here, part of the community. When a customer walks in, we immediately treat and greet them well, offer them a beverage. We're trying to impress the minute they walk in, because every second we lose, they may not come back.

What core values do you have that you feel led you to winning the MVP Award? Working hard is most important. From what I hear, building a business is like having a newborn baby that you created. You love it and do everything you can to get it what it needs. I didn't just open my businesses to create money.

to music while he rode and began saving for a car. When he graduated from high school, he went to work building out hotel franchises in Denver.

"But I wanted to do more with my life. I wanted to own my own business and make my parents proud and ultimately support them at some point," says Sarkissian, winner of *Multi-Unit Franchisee* magazine's 2012 MVP American Dream Award. As he learned about his new country, he began to understand the concept of franchising and how people are drawn to brands with a reputation for good food or products and great service.

He took the plunge, taking on Best Western and Fantastic Sams franchises in California near his family. The grand opening of his first salon in Turlock, Calif., was a huge affair with community marketing and direct advertising. Surrounded by Supercuts, he and his team started branding Fantastic Sams in the community even before it opened by using logo-emblazoned trailers, cars, and trucks and blanketing the area with

> **"Every morning and every night I think, 'This is a blessing, be thankful for what you have.'"**

PERSONAL

Key accomplishments: It means the most to me that my parents can see my success and are proud of me.

Biggest mistake: I don't dwell on mistakes—I think of them as learning experiences.

Smartest mistake: Can't think of one.

How do you spend a typical day? I start by checking the TV for breaking news and updates about what's happening in the world. Then I read and reply to emails and call my managers to check in and see how things are going. From there, I go over to the locations and start my day.

Work week: 7 days

Favorite fun activities: Hiking and going to the lake.

Exercise/workout: I go to the gym when I can.

Favorite tech toy: iPhone

What are you reading? The new Steve Jobs biography.

Do you have a favorite quote/advice? I have a couple related to failure. Henry Ford said something like, "Failure is the opportunity to start again more intelligently." The other one is, "Try and fail, don't fail to try."

Best advice you ever got: I get a lot of my best advice from my mom, especially about dealing with my employees. She said, "Edwin, have people do stuff for you because they love you, not because they fear you."

Formative influences/events: Moving to the United States in 1996 and getting into franchising.

How do you balance life and work? I work a lot, but I also like to spend time with my mom and dad and sisters. They live nearby but I don't get to see them as much as I'd like. I wish I could be with them every day.

stickers and flyers. Soon everybody in town knew about the salon and its young owner.

In June 2011, Sarkissian opened a second salon in Modesto, and less than a year later opened his third.

"Edwin is a branding guru, whether he's directing his advertising on a market level or on the individual salon level," says Scott Colabuono, president and CEO of Fantastic Sams Hair Salons International. "He uses all the tools available to him, follows the Fantastic Sams system, and has developed a very strong team with high standards. He features the brand and his salons on everything he touches, whether wrapping his vehicles or partnering with movie theaters. Edwin's three salons and three hotels—plus two hotels he manages for investors—are gems in his portfolio. I wish I had dozens of Edwins in our system."

"I wanted to make my parents proud and ultimately support them at some point."

Sarkissian says franchising has been the best path to success for him. "I knew from the start that the chance of failure with a franchise was much less than with another kind of operation. The franchisor's job is to make sure you succeed, so even though franchisees pay the price (royalties, etc.), we're all in this together."

Despite his seven-day work week, the young franchisee says he is grateful every day. "I come from a country where people aren't given these chances. Yes, there are economic and political problems in this country, but those mean nothing to me. At the end of the day, we have a nice, comfortable bed and a nice meal and we get up in the morning and do it again. Fifty percent of the world doesn't get to do that. It's important to appreciate that." MUF

MANAGEMENT

Business philosophy: All of us work and spend our money. When we spend it at any business, we want to get what we pay for because we work so hard for our money. I want to provide good service and good value to our guests because in this economy, every dollar and penny counts. I also believe in giving back to the community, so we give a lot out. We can't be too greedy and just hold on to everything.

Are you in the franchising, real estate, or customer service business? Why? Customer service has to be first. We live in a customer service world, especially in America. If we have no customers, we have no business. The great thing about franchising is that we're all in it together on the same concept. Every place our customers go, they know they can find the same products and service.

As an operator, what are the two most important things you rely on from your franchisor? Buying power and resources, like support with real estate, marketing, and branding.

What gets you out of bed in the morning? The surprise of what the day will bring. I like to live day by day. People want to schedule appointments for weeks to come, but I think if you plan so much and work so hard, you forget about living. If you plan your whole life, you become a machine. I want to live happy, because we don't live forever.

What's your passion in business? It's like a science project. When you create this thing and it's working you want to continue to make it work. We humans like to challenge ourselves, especially with something where there's a chance of failure. I like that challenge and trying to make a difference in the world.

Management method or style: I don't believe in treating one person less than the other. We all have the same value and respect as a person. My dad says, "We came into this world naked, we'll leave naked." That's why I try to lead by example. I'll get down on my knees and scrub the floors or the toilets because I want people to see I will do everything I ask of them. If you treat people well and take care of them, they will love you and work harder for you.

Greatest challenge: Keeping all my businesses going well.

How close are you to operations? Very close—that's why I work seven days a week. I'm involved every day. I'm not just the guy who drops off checks and says thanks and goodbye. I want people to know that I care.

Have you changed your marketing strategy in response to the economy? How? A little bit. We're always finding new sources and adjusting to prices and products we're serving. There aren't that many jobs, and no jobs means less money for people to spend. So we have to adjust to accommodate them.

How is social media affecting your business operations? Right now, we're not doing a lot of that because it takes so much time to monitor, update, and deal with feedback.

Personality: Hard-working, fair, good sense of humor.

How do others describe you? Hard-working, fair, caring.

How do you hire and fire? Lots of times I meet potential employees following their interviews with the managers. I'm really less interested in what degree they have than what life experience they have. I hire based primarily on personality and attitude. I try to make interviews less serious so they can relax and show me who they really are.

As for firing, if it's at all possible, I like to keep who I have and work with them and make things better. If there's not a big problem, I like to give people a second chance, because where I grew up not many people were ever given second chances. We're not there to fire people. A lot of times, people fire themselves.

How do you train and retain? I pair new people up with some of the best employees in the company for training. I also spend time myself to see how they're doing and how quickly they're catching on. To better retain our employees, I train my staff and supervisors not to yell or raise their voices and to treat people well and not look down on them. It goes back to what my mom says: Treat them well and if you make a mistake, man up and say sorry—even if you are the owner or the supervisor.

How do you deal with problem employees? Like I said, we believe in second chances as long as we see that person has the right attitude and is really trying.

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BOTTOM LINE

Annual revenue: NA

2012 goals: Our biggest goals for 2012 are to stay in business and to try to increase revenues and provide great service. By around 2013, depending on the economy, we'll be looking at other franchises in the restaurant industry.

Growth meter: How do you measure your growth? We go three years back and compare month to month, year to year, and hope to come up with a 3 to 5 percent increase in revenues.

Vision meter: Where do you want to be in 5 years? 10 years? I want to grow, but not too quickly, because once you get in the habit of working seven days a week you become addicted to work. Where there are new opportunities, I'll take them.

How has the most recent economic cycle affected you, your employees, your customers? Because of the economy, we try to cut back on certain things, like finding new ways to use energy and newer, less expensive companies for supplies. It's sad to say, but most of the time, the first thing companies cut back on is payroll. We try not to do that. We try to give our people as many hours as possible. If you cut back on payroll, your people will start looking for new hours elsewhere. Our employees have obligations to their families and I don't want them to worry. Their feelings are important to me.

Are you experiencing economic growth/recovery in your market? Yes, it has gotten a little better. It seems like people are coming back, but they're smarter and managing their money better and being more careful about what and where they spend.

What did you change or do differently in this economy that you plan to continue doing? We'll continue to look for places we can save money.

How do you forecast for your business in this economy? Conservatively.

Where do you find capital for expansion? Our own cash flow.

Is capital getting easier to access? Why/why not? No not really—it's harder. You have to use your own capital to do anything.

Have you used private equity, local/national banks, other institutions? Why/why not? Not lately. It's too expensive and banks aren't doing much lending to small businesses.

What kind of exit strategy do you have in place? I'm only 28 so I haven't thought about that.

What are you doing to take care of your employees? We provide healthcare, incentives, bonuses, and a 401(k) with 100 percent matching by the company.

How are you handling rising employee costs (payroll, healthcare, etc.)? Some things you just have to absorb.

How do you reward/recognize top-performing employees? We offer bonuses and also put them in the spotlight—let everyone know what they did and give them a plaque and put their name on our break room board.

The 2012 Multi-Unit 50

Ranking the most multi-friendly brands

Top 50 Brands by Number of Multi-Unit Franchisees

RANK	BRAND	MULTI-UNIT FRANCHISEES	TOTAL FRANCHISEES	% OF MULTI-UNIT FRANCHISEES
1	SUBWAY	3,866	8,062	47.95%
2	MCDONALD'S	2,185	2,792	78.26%
3	H&R BLOCK	865	1,720	50.29%
4	SOUTHERN TSUNAMI	792	1,619	48.92%
5	DUNKIN' DONUTS	778	1,377	56.50%
6	LIBERTY TAX SERVICE	774	1,753	44.15%
7	DOMINO'S PIZZA	643	1,136	56.60%
8	BURGER KING	609	1,088	55.97%
9	LITTLE CAESARS PIZZA	585	680	86.03%
10	JACKSON HEWITT TAX SERVICE	579	738	78.46%
11	GREAT CLIPS	484	786	61.58%
12	ACE HARDWARE	475	2,992	15.88%
13	CENTURY 21	463	1,787	25.91%
14	RE/MAX	461	2,448	18.83%
15	THE UPS STORE	455	3,731	26.29%
16	QUIZNOS	348	2,106	16.52%
17	PAPA JOHN'S PIZZA	328	362	90.61%
18	TACO BELL	324	609	53.20%
19	WENDY'S	320	445	71.91%
20	KFC	311	552	56.34%
21	HEALTH MART PHARMACY	310	2,156	14.38%
22	VISION SOURCE	295	1,836	16.07%
23	COLDWELL BANKER	286	915	31.26%
24	ARBY'S	256	419	61.10%
25	DUNKIN' DONUTS/BASKIN-ROBBINS COMBO	252	565	44.60%
26	DQ GRILL & CHILL/DAIRY QUEEN GRILL & CHILL	251	1,268	19.79%
27	COUNTRY INNS & SUITES BY CARLSON	249	370	67.30%
28	FANTASTIC SAMS	247	714	34.59%
29	SONIC DRIVE-IN	237	559	42.40%
30	PAPA MURPHY'S	233	554	42.06%
31	SNAP FITNESS	218	657	38.45%
32	COLD STONE CREAMERY	215	723	33.89%
33	JIMMY JOHN'S	213	452	47.12%
34	PACIFIC PRIDE SERVICES	199	340	58.53%
35	ANYTIME FITNESS	196	1,045	18.76%
36	MIDAS	194	508	38.19%
37	SPORT CLIPS	191	364	52.47%
38	FIREHOUSE SUBS	183	202	90.59%
39	PIZZA HUT	179	355	50.42%
40	INSTANT TAX SERVICE	173	269	64.31%
41	BASKIN-ROBBINS	172	740	23.24%
42	EDIBLE ARRANGEMENTS	170	584	29.11%
43	POPEYES LOUISIANA KITCHEN	167	553	30.20%
44	GENERAL NUTRITION CENTERS	164	524	31.30%
45	KUMON	163	1,133	14.39%
46	MASSAGE ENVY	156	415	37.59%
46	JIFFY LUBE	156	336	46.43%
48	SYLVAN LEARNING	153	383	39.95%
49	MIRACLE-EAR	152	189	80.42%
50	ZAXBY'S	145	161	90.06%

Source: FRANdata

Brands with 25 or fewer franchisees were excluded.

Top 50 Brands by Percentage of Multi-Unit Franchisees

RANK	BRAND	% MULTI-UNIT FRANCHISEES	MULTI-UNIT FRANCHISEES	SINGLE-UNIT FRANCHISEES	TOTAL FRANCHISEES
1	APPLEBEE'S	100.00%	43	0	43
1	PANERA BREAD	100.00%	35	0	35
2	JENNY CRAIG	94.59%	35	2	37
3	CAPTAIN D'S	94.37%	67	4	71
4	BACK YARD BURGERS	93.18%	41	3	44
5	BOJANGLES’	93.06%	67	5	72
6	PAPA JOHN'S PIZZA	90.61%	328	34	362
7	FIREHOUSE SUBS	90.59%	183	19	202
8	ZAXBY'S	90.06%	145	16	161
9	BRUEGGER'S	90.00%	27	3	30
10	FIVE GUYS	89.87%	142	16	158
11	CHECKERS	89.22%	91	11	102
12	GATEWAY NEWSTANDS	88.78%	87	11	98
13	RALLY’S	87.10%	27	4	31
14	LITTLE CAESARS PIZZA	86.03%	585	95	680
15	MCALISTER'S DELI	85.42%	41	7	48
16	JACK IN THE BOX	80.52%	62	15	77
17	MIRACLE-EAR	80.42%	152	37	189
18	RADISSON HOTELS	78.86%	97	26	123
19	JACKSON HEWITT TAX SERVICE	78.46%	579	159	738
20	MCDONALD'S	78.26%	2185	607	2792
21	PONDEROSA STEAKHOUSE	77.61%	52	15	67
22	BLOCKBUSTER	77.42%	72	21	93
23	PASSPORT HEALTH	74.51%	38	13	51
24	GRANDY'S	74.42%	32	11	43
25	ACE SUSHI	73.83%	79	28	107
26	CARL'S JR.	73.40%	69	25	94
27	FAZOLI'S	73.33%	22	8	30
28	SUPERCUTS	73.15%	109	40	149
29	SWEET FACTORY	72.73%	24	9	33
30	WENDY'S	71.91%	320	125	445
31	GODFATHER'S PIZZA	71.36%	142	57	199
32	PENN STATION EAST COAST SUBS	70.69%	41	17	58
33	PACCAR LEASING	69.64%	39	17	56
34	VALVOLINE INSTANT OIL CHANGE	67.95%	53	25	78
35	AARON'S	67.94%	89	42	131
36	COUNTRY INNS & SUITES BY CARLSON	67.30%	249	121	370
37	HUNTINGTON LEARNING CENTER	66.24%	104	53	157
38	Z PIZZA	64.79%	46	25	71
39	COST CUTTERS FAMILY HAIR SALON	64.77%	57	31	88
40	INSTANT TAX SERVICE	64.31%	173	96	269
41	CELLAIRIS	63.54%	61	35	96
42	VALUE PLACE	63.41%	26	15	41
43	DENNY'S	62.11%	118	72	190
44	TIM HORTONS	61.90%	117	72	189
44	FROOTS	61.90%	26	16	42
46	GREAT CLIPS	61.58%	484	302	786
47	ARBY'S	61.10%	256	163	419
48	HARDEE’S	60.71%	68	44	112
49	HOOTERS	60.00%	24	16	40
50	THE ORIGINAL SOUP MAN	59.46%	22	15	37

Source: FRANdata

Brands with 25 or fewer franchisees were excluded.

BY EDDY GOLDBERG

GUERRILLA MARKETING in the Real World

INNOVATIVE, CREATIVE, LOW-COST MARKETING TIPS YOU CAN USE

Many consider a mailer not delivered by mail—placed on the hood of a car or on a doorknob of a house—to be guerrilla marketing. This is like comparing a paint-by-number portrait to the Mona Lisa.

True guerrilla marketing is much more bold, creative, and, most important, surprising. In fact, all successful examples of this type of marketing feature unexpected placement, timing, or messaging.

Apples on trees in the middle of winter, a carton of undamaged eggs on a baggage claim carousel, a crushed car in the middle of a valet parking lot—you must understand what is expected in a situation and then do the opposite.

It's not a marketing medium for those who prefer to play it safe. And it's not something you can do just halfway. If you do, your guerrilla marketing will be little more than a direct mail postcard without postage.

So if you're ready to take on guerrilla marketing, let your creativity run wild and don't be afraid to break some rules. And remember: Have fun, too!

—Melinda Caughill, partner, strategic marketing, Third Person, Inc.

When things get quiet at Carla Fryar's Great Clips salons in Northfield and New Prague, Minn., she tells her employees to hit the road—dressed as the brand's mascot, Sudz, a life-sized blue shampoo bottle.

"Rather than sending home an employee when it's quiet, we go out on a street corner and hold a sign, sometimes for 15 minutes, sometimes for 3 hours, depending on what we want to get across," she says. Participants include the managers, Fryar, her husband, or the employees or their children.

Fryar, a Great Clips franchisee since 1992, has two salons now, down from the 10 she once operated with different partners. "We do a lot of local things that would not necessarily in most peoples' minds be considered advertising," she says. Some examples of her outside-the-box thinking:


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MassageLuXe.com
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Love Your Skin
Spray La Vie
SprayLaVie.com
XistFit.com
XIST FITNESS
DON'T JUST EXIST... XIST FIT
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TheTanCo.com
BAM™
BODY AND MIND BRANDS
LEADING THE WORLD IN
HEALTH & BEAUTY
FRANCHISE DEVELOPMENT
Area Development & Multi-Unit Territories Available.
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Spray La Vie
THE TAN COMPANY
XIST FITNESS
MassageLuXe | The Tan Co.
Dave Ruzicka
(636) 680-9013
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druzicka@massageluxe.com
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• Get an "air guy"—one of those big inflatable wiggly creatures. "Mine says 'Great Clips' on one side and 'Haircuts' on the other, so we can use it any time," she says. "We bought it and drag it between our two stores. It's not a very expensive investment for the attention it attracts."

• Have your employees paint their car windows with "Go Tigers" or "Win State" or with other timely, locally oriented slogans. "I give employees a free car wash when it's done—and paint is cheap."

• Use an old reliable auto dealer's tactic: hang colorful triangular banners, in this case from their outdoor signage to the light pole in the parking lot. It actually works, says Fryar.

• Hand out free beads with a coupon stapled to them. She buys them in bulk at party stores.

• Get a permit to put signs out along the boulevard saying "I ♥ Great Clips" or "$2 Off Haircut" or "No Waiting." Others trumpet a special reduced price. "We might put that out all day, or just a few hours when it's slow. If someone comes in and says they saw it, we give them that price."

• Approach a local Boy Scout group, sports team, etc. and say, "I'll donate $100 if you can get someone to hold a sign for these hours on these days." She says it's an easy way to get help, a good cause, and gets the wider community involved.

"Getting the whole staff involved is the key—not just me or the manager," she says. However, since everyone has a different comfort level, be sure to check with each employee. Some may love dressing up in a costume and standing and waving on the corner, while others may not.

Beneath the flurry of activity, Fryar has a slow-and-steady approach to increasing her clientele. "It's about getting one more each day, which is 7 more per week times 52 weeks times the average person gets haircuts every 6 to 7 weeks," she says. "They've been putting off a haircut, see this, and come in"—and, she hopes, come back.

Does she track and measure the results of all these marketing maneuvers? "Definitely. When I had the 10 salons and started to do more of this—and Great Clips was involved in getting us started—we saw how much it increased business, versus the same period of not doing the guerilla marketing," she says.

The first time she tried it was during back-to-school season. "Sales increased 18 to 30 percent over those same weeks from the year before," she says. "I continue to see these same types of results. Just this past month during our haircut sale with the marketing things my staff, managers, and we did, my two salons had a customer count increase of 78 percent and 90 percent over last year's same week."

From folding rags to marketing whiz

Twenty-year-old Michael Silva-Nash's family bought the Greater Little Rock Molly Maid franchise in 2005. "If you were part of the family, you had to come to work at Molly Maid, folding rags, filing, weekends," he says. Soon he was making customer phone calls and beginning to take on marketing-related activities. Now he's appearing on a local television

station sharing cleaning tips on the air.

About a year ago, the family revamped their marketing. "We started doing radio with a local personality we enjoy listening to and who spoke to our clients, the women we were trying to reach. She's almost a personal endorsement, like a friend," he says.

For someone so young, he seems to have his fingers on all the right marketing buttons. "You have to adapt your marketing to the local area and tie all your marketing together," he says. That currently includes Twitter, Facebook, radio, ads, TV, and more.

Silva-Nash says he loves coming up with marketing ideas and seeing their effect on the growth of the business—which has one location, employs about 40 people, and cleans an average of 50 to 60 homes per week. Here are some of them.

• **Text messaging,** he says, is "a great way to get to the customer's pocket." And they've made it easy for people to sign on. "You text a word to a number and you're enrolled. Then we send you a text message with a special deal or reminder," he says. "With technology advancing so much, the best way to get a customer is to make them feel like you're right next to them, not like a distant corporate office."

• **E-marketing.** Using Constant Contact, they send an email newsletter once a quarter to customers who have opted in. "We talk as little about housecleaning as possible," he says. Instead, they focus on local events, their community participation, and simply keeping their name in customers' minds. They also post tips on Facebook, such as how to clean old headlights using toothpaste.

• **Networking.** For Silva-Nash, it's all about building relationships with people in the community. They've teamed up with a local television host, appearing once a month to talk about cleaning. "We don't push, we just remind them that we're there," he says.

• **Internet.** "It's a growing place to be, an important place to be. If you're not on it, you're missing a lot of potential business," he says. "Not many housecleaning companies around here are doing Facebook and Twitter yet. Starting early gave us a strong advantage."

Google Adwords drives traffic to their local website, and they're building relationships with "mommy bloggers." One such blogger, who has about 5,000 unique views per month, gets her house cleaned once a month in exchange for reviewing the service online. Gift certificates for Mother's Day, he says, boosted their SEO ranking, and corporate assists in boosting it further by posting his TV appearances on Youtube.

Their Facebook page is packed with customer testimonials, housecleaning tips, local news, links to corporate sites, discount offers, tons of photos, and an upbeat, fun-loving tone (e.g., the debate about which way to hang toilet paper). It's worth a look.

They've also hired a company through the corporate office to generate customer reviews of their services. He says the reviews are short (about 2 minutes), drive up their SEO results, and provide local endorsements that build trust with potential customers. If a negative review comes in, he says, "We give them an immediate callback to see what happened."

Then there's the economy. "This is a time when people are looking for the best deal," he says. And while they can't lower costs without cutting into profitability, they will offer a freebie once in a while through contests on television, Facebook, or Twitter on Valentine's Day, Mother's Day, and at back-to-school time, for example.

"We get them enrolled through incentives. Even if they don't win, they get updates, allowing us to have some space in their mind." The goal is to have people who need housecleaning to think of Molly Maid automatically.

And with all the optimism of youth, he adds, "Just because it doesn't work one time, you have to keep going at it again and again."

Rennick-dotal evidence

The energy, optimism, and creativity of youth are valuable assets in guerilla marketing. So is the real-world experience of a franchising veteran. We asked Dick Rennick—founder of American Leak Detection (more than 360 franchises in 44 states and 13 foreign countries when he sold it in 2007) and now founder and CEO of Team Rennick, a franchise consultant, mentor, and coach for service brands—what he's learned over the years about effective, low-cost marketing.

"In my early days I spent every penny I had on marketing, and 90 percent of the time it was wrong," he says. Rennick says he was very fortunate in those years to meet Ray Kroc and to spend time with Dave Thomas and Bill Rosenberg. "I learned from some of the best. I call them silver-haired foxes, with battle scars. Education is okay, but I looked for people who got beat up."

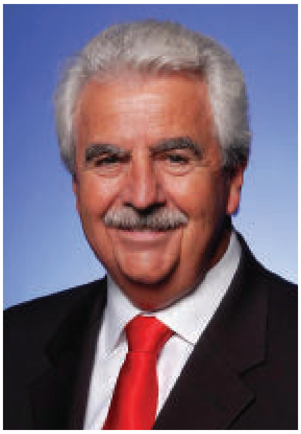
When he was working to grow American Leak Detection, Rennick says he watched plumbing and drain cleaning businesses and saw that when they did a job they'd go to 10 houses on either side of the street. "I talked to one of the guys and asked, 'How has this helped you?'" It was the owner, who told Rennick that he couldn't afford the Yellow Pages any more, and had to cut his spending there by 75 or 80 percent.

"I see your trucks parked over at the shopping centers," said Rennick.

"Yup, I sit there for several hours. It's a moving billboard."

"How's that working?"

"I used to run 50 percent of the company's business and that was all me. Now, a year later, I have three trucks. It's all about doing the job and getting people to know who I am."


Dick Rennick

Looking back, says Rennick, "He said he never sat there more than an hour before people would approach him, and he got a ton of jobs from that." Later, when the owner got hurt on the job, Rennick bought the company. His advice from that experience? "Get your name out there, big, bright, and bold," he says.

"One of best tips I've learned is to watch what your competitors are doing to get their name out. Are they spending big money online? For SEO? Social media? Going door-to-door and dropping things on doorknobs?" Here are some more he recommends.

• **Free stuff.** "Give departing customers a takeaway," says Rennick, such as a key chain holder or a phone sticker for emergency numbers. "It's very cheap advertising, but it gets your name out there."

• **PR,** he says, is a very good way to increase sales." I never spent a dollar advertising, though I did hire a PR firm," he says. Examples include newspaper articles, getting behind local Boys & Girls Clubs, sports teams, etc. "You'd be surprised how that little bit of press gets people to recognize that you're there and have an interest in the community. The key is giving back to the community. People will start coming back."

• **Uniforms.** At American Leak Detection, his UFOC required franchisees to wear company shirts and always take business cards with them. "I have had franchisees who've met people on cross-country flights. I sold three franchises because people saw the shirts."

• **Keep it fresh.** Look for new ways to get customers interested in your business, he says. If you have a mobile service concept, find ways to market yourself at a reasonable cost. "Use door hangers whenever you do a job, saying 'I just did your neighbor's house.'" Use inserts into local papers because direct mailing is too costly. The goal is "neighborhood TOMA" (top-of-mind awareness). "You want everybody to remember who you are."

Just be sure to get your fabulous new plans approved by corporate before you hit the streets. Rennick says 90 percent of the time the response will be well-received. "You're the one in the trenches. The franchisor will want to pass it on to other franchisees."

"Everything we do is free"

Nick Frantz, 24, is another young marketing whiz. According to Chris Jackson, director of marketing and branding at College Hunks Hauling Junk, "He *lives* College Hunks. If he is in the grocery store, it's a marketing opportunity."

Frantz worked at the brand's Washington, D.C., flagship franchise for 3 years, followed by a summer with the brand's Tennessee franchisees, before becoming a franchisee in Northern Virginia in late 2010. So far he has just one territory, Loudon County and a few neighboring areas in Fairfax County, where he's exercising his marketing talents.

"You can spend a lot of money on advertising. It adds up fast," he says. "Everything we do is free or a team cost."

One example: an online video of a day in the life of a College Hunk—100 percent employee created and edited. The videographer, a crew member's girlfriend, spent a day in the truck recording what the crew did, where they went, how they found new jobs, etc. (youtube.com/watch?v=o9UC1P17rF8).

"They nailed it, hit all the bullet points. It's awesome. We sent it to Chris last summer, who told all the employees to put it on their own Facebook page," says Frantz. "There's no way of showing a direct return on it," but at this stage of his business, he says, "I'd rather do it cheap."

Innovative, creative marketing initiatives are part of the culture at College Hunks. "Our whole company does a lot of guerilla marketing. They had it set up when I came along," says Frantz. "It's definitely an advantage to be part of a franchise system so we can see what others are doing, what's working."

One popular, low-cost activity across the brand is standing on the side of a busy street in their uniforms, waving a big orange foam hand. They also park their trucks at busy intersections to "get in front of anyone that we can," he says.

Frantz and his team often come up with their own ideas, or with creative, low-cost variations on existing marketing activities. These include a food drive at a Loudon County public school. "We left the truck there. As long as it's visible, it's free advertising for very little cost."

He and his crew also participate in community events, making the truck available for river cleanups, or showing up at neighborhood yard sales to cart away anything unsold—"as long as we can park the truck at the entrance," he says. "It's not really to drive revenue, but to drive community awareness."

They also are busy taking advantage of any and all online and social media marketing opportunities. "Facebook and Twitter have connected us to community events, tag sales, and Chamber of Commerce events," he says. They also work with nonprofits who either have volunteers and need a truck or the opposite. "We do it for free and they do it for free," he says.

"We've struggled with referrals in the past. We're not like a landscaping service. Our customers need to have junk, or some other need for us," he says. To help, they contact bankers, real estate people with foreclosures, and anyone else who can point them to new customers.

And with corporate approval, they've redesigned their business cards into what

Frantz describes as "social media business cards." They're slightly larger than a traditional card, and instead of an 800 number and local phone number, they list Facebook and Twitter contacts to drive customers to their social media sites. "Because everybody's on social media," he says.

When his crew stops for lunch, he tells them to park their truck near a corner for maximum visibility (as in free advertising) while they chow down. The crew, who always wear their uniforms during their work hours, are encouraged to tell Facebook followers where they are and to wave if they see them.

At first, he planned to pay someone to update their Facebook page. "After one day of trying that, it didn't really work," he says. Instead, he has his crew text him about what they're doing, or if they had a "Wow experience." Or it could be something as simple as the crew removing their shoes on a rainy day when moving a refrigerator. It's not a problem finding time to update their local landing page or their Facebook page. "It takes 2 minutes for me. I do it throughout the day," he says.

Blogging is also turning out to be an effective, no-cost strategy for Frantz. Finding people who, as he puts it, "simply blog about stuff," he's worked out swap-for-services deals where they'll do a job in trade for the customer writing about it on their blog. Says Frantz, "The cost of paying for advertising is more than if you swap your services." MUF

Darrell Johnson


Jim Collins

Multi-Unit Empire Builders


Nigel Travis


John Metz

BY KERRY PIPES AND EDDY GOLDBERG

"Empire Builders" was the theme at this year's Multi-Unit Franchising Conference in Las Vegas. And it was an appropriate theme, as many of the more than 400 multi-unit franchisees on hand started small with one or two units and built their own empires over the years.

With its growing reputation as the "go to" event for multi-unit operators, the conference attracted many of franchising's movers and shakers from April 24–26 at The Mirage. Numbers and spirits both were high at the event as franchisees, franchisors, and vendors rolled into the gambling mecca for the three-day event and pre-conference golf tournament. Franchisees representing more than 170 brands were in attendance, and their combined annual revenue topped $5 billion.

What is your 20-mile march?

Franchise Update Media Group scored a major coup by recruiting world-renowned business author, teacher, and speaker Jim Collins, perhaps the most influential management thinker alive, to give a keynote address on Tuesday morning, the first day of the conference.

Collins, author of best-selling books *Built To Last*, his classic *Good to Great*, and *How the Mighty Fall*, held the crowd spellbound for more than an hour with highlights from his 2011 book, *Great by Choice*. In this new book, Collins studied companies that have thrived in chaos, consistently outperforming their competitors over the long haul.

As he took the crowd through the lessons discovered in researching his new book, Collins hammered home his points

Record-setting crowd converges on Las Vegas

with data and anecdotes that underscored his findings about what separates the good from the great during uncertain and chaotic times.

In one of his most striking examples—the race to the South Pole in 1911—he contrasted the leadership styles of the two explorers seeking to be first to reach the Pole: Norway's Roald Amundsen and Britain's Robert Scott. Amundsen's team, which stuck to its schedule no matter what the weather, reached the destination and returned safely. Despite facing the exact same circumstances, Scott's team, whose daily mileage varied more as the weather changed, perished. Collins turned the tale into an analogy for being successful in business over the long haul by creating a plan and sticking to it. "Commit to a 20-mile march," he said. "Set your goals and reach them day in and day out."

And don't push too far when conditions are good. In its early days, Southwest Airlines (one of the companies Collins characterized as "great by choice") had requests from 100 airports to set up operations. Despite the opportunity, management chose to stay true to their plan, and chose only four. Greatness, said Collins, is not the result of circumstances. Rather, he said, "It's choices and discipline." For companies seeking to grow sustainably, he says, the lesson is to "have the good sense to hold back," despite temptations to grow more quickly than planned.

In other observations, he said the "X factor" of great leadership is "humility combined with ferocious will." The best leaders, he said (whether shy and retiring or flamboyant), see

Conference by the Numbers

Franchisees, franchisors, and suppliers from across the United States and Canada gathered April 24–26 at The Mirage Las Vegas for Franchise Update's annual Multi-Unit Franchising Conference. The event continues to grow each year, and numerous records were set this year. Here's a quick rundown of the aggregated statistics from the more than 400 franchisees who attended:

- **17%** have 2 brands
- **22%** have 3 or more brands
- **75%** are looking for new brands to add
- they represent **171** brands
- they operate in **37** states and Canada
- they have more than **6,500** operating units
- they employ more than **90,000** people
- their annual revenue tops **$5 billion**

themselves in service to goals and aspirations bigger than themselves.

He strongly encouraged franchisees to "get the right people in the key seats," a reference to his famous observation that building a company is like driving a bus. "If I had to pick the single most important skill for executives," he said, "it's the ability to pick the right people for your key seats. If you master that, it's your fuel for growth." If not, he added, growth will be constrained.

Afternoon: a Dunkin' delight

Tuesday afternoon's keynote was delivered by Dunkin' Brands CEO Nigel Travis. Travis joined Dunkin' in January 2009 following successful stints at Burger King, Blockbuster Video, and Papa John's where he developed a reputation for building strong franchisee networks, improving sales, and furthering international growth. And despite the economic upheavals of the past few years, he seems to be doing it again at Dunkin' Brands, which includes Dunkin' Donuts and Baskin-Robbins.

Travis said both brands are experiencing consistent quarter-over-quarter growth, improved guest satisfaction scores, and

that system-wide technology upgrades are leading to improved efficiencies (e.g., one POS system for all 5,500 U.S. stores). In the U.S., Travis said he expects 260 to 280 net new units in 2012, with a goal of sustaining 5 percent growth during the next few years. The brands also continue to expand globally with new markets in China and the Middle East. Many attendees expressed surprise on hearing that the company already has more than 1,000 Baskin-Robbins stores in Japan and 2,000 Dunkin' Donuts and Baskin-Robbins stores in Korea.

The most striking evidence of improved franchisee-franchisor relations at Dunkin' Donuts came when Travis was joined by two large multi-unit Dunkin' franchisees, Rob Branca and Alex Smigelski, and fielded questions from conference chair John Metz and the audience. It's no secret that relationships between franchisees and the franchisor had traveled a rocky road in recent years, and both franchisees agreed things have changed for the better since Travis came on board.

Travis discussed working with franchisees, associations, and advisory groups and how collaborative efforts not only build stronger brands but more cohesive ones. "We have to set the right positive culture for all our franchisees to succeed," he said. In response to a question from the audience, Travis said he would "consider" having a franchisee on the Dunkin' board, but added he didn't know if other board members would go along. "It needs a lot more discussion," he said.

The remainder of the afternoon was filled with breakout sessions including "Mega Franchisees: Lessons Learned"; "Winning and Keeping Loyal Customers"; "Growing to 10 Units"; and "Keys to Selecting Additional Brands."

Following the sessions, attendees gathered for the opening of the Expo Hall, where a cocktail reception provided the perfect opportunity for franchisees, franchisors, and suppliers to rub elbows, compare notes on the day's speakers and sessions, and share solutions to their common problems. This year's Expo Hall, with more than 160 booths, was larger than at any previous conference, and the room positively buzzed with activity.

It's the stupid economy

Wednesday, the second day of the conference, kicked off with FRANdata President Darrell Johnson discussing the state of the economy, shifting demographics, regulation and politics,

and their effects on franchising.

He sees no dramatic changes ahead, describing the next 7 to 10 years as a "choppy, grind it out period" in which "there's not much we can do about it." The economy, he says, is "not growing very fast, but slowly rising"—a mild, steady improvement from previous years.

Johnson said competition for credit will continue, and that franchisee growth will be characterized by a fight for existing market share. The keys to borrowing are a multi-unit organization's performance history *and* the brand's performance history. Europe's ongoing recession and a worldwide increase in the demand for food supplies should continue, driving commodity prices upward, he said.

One potential red flag he raised concerned hiring new managers in the coming years. Noting that the only demographic group that is shrinking is those aged 35 to 44—the "ideal" age for managers—he asked, "So where do you go to bolster your management team?"

He also noted that multi-unit growth continues to be fast and dramatic—even joking that we were witnessing the "multi-unit march toward world domination." Johnson closed with a thought from management guru Peter Drucker: "People who don't take risks make about 2 big mistakes per year. People who do take risks make about 2 big mistakes per year." (For his most recent thoughts and observations, see his column on page 82.)

The afternoon's keynote address was to be delivered by the NFL's all-time winningest coach, Don Shula, accompanied by his son Dave. However, right before the conference, Don was admitted to the hospital with doctors' orders not to travel. But Dave—with a few playing and coaching years of his own in the NFL—stepped up and handled the address just fine, sharing stories of his father's football career and approach to life.

The Shula family started a chain of steak restaurants in Florida in the late 1980s. Dave's restaurant experience and conversational approach helped him relate to many of the franchise operators in the room through both successes and failures. One humorous analogy he offered, "In football, you kick your opponent's butt, in the restaurant business you kiss your customer's butt."

He laid out a six-point plan for being successful in football or franchising. It boiled down to having a good plan, hiring right, training, accountability and follow up, innovation, and focusing on your core strengths.

Solution sharing and wrap-up

The remainder of the morning allowed attendees to join business solution roundtables and breakout sessions covering topics such as social media, marketing, financing, and growth strategies.

Following lunch in the Expo Hall, the group recon-

vened for a general session panel on leadership. Franchise CEOs who have been or still are franchisees spoke about the different perspective and understanding they gained working on both sides of the proverbial fence. The afternoon featured additional sessions before one final meet-up in the Expo Hall.

Thursday, the final morning of the event, featured an intense session on healthcare reform law. Misty Chally, vice president of legislative affairs for the Coalition of Franchisee Associations, presented a summary of how the Health Care and Education Reconciliation Act of 2010 would likely affect small-business owners. Many franchisees raised questions, and emotions ran high throughout the session—and all have their antennae out for the Supreme Court's scheduled ruling on the law scheduled for June.

Mel Kleiman, president of Humetrics, moderated the last session of the conference, in a lively discussion of the current state of HR and employment law. He was joined by panelists Blake Helppie, CEO of the JobApp Network, and Janet Grumer, an attorney with Davis Wright Tremaine in Los Angeles.

Building an empire is a tough business. It takes dedication, hard work, smarts, and often a little luck. But that's exactly the kind of franchisee who attends the annual Multi-Unit Franchising Conference. Based on the buzz, the talk of deals in the making, operating tips, and record attendance, the empires continue to build. MUF

What Keeps You Up at Night?

Conference attendees were polled on the question, "What keeps you up at night?" Results from 50 randomly selected responses to this open-ended questionnaire show the overwhelming concern from franchisees is front-line staffing (hiring, training, and retention) and customer service (60 percent).

Next came financial worries (funding, securing investors, banks not lending, debt reduction), mentioned by 32 percent. Closely related were concerns about growth (opening additional units, managing growth, opportunity vs. risk, finding complementary brands), mentioned by 30 percent.

Government mandates (healthcare, minimum wage, taxes) worried 24 percent of respondents. Not far behind at 22 percent were employer issues such as lawsuits (frivolous and not), workers' comp, sexual harassment, and insurance-related incidents.

Site selection, real estate, and leases were on the minds of another 22 percent. Many (18 percent) also were concerned about their franchisor, citing worries such as changes in ownership, corporate mandates, encroachment, marketing, leadership, long-term viability, and adaptability to a changing marketplace.

The rising cost of goods and supplies (14 percent) also worried many. Cash flow, underperforming stores, operations, and technology also made the list of franchisees' concerns, along with new competition, balancing work and family, and for restaurant operators, a "devastating brand event" such as food poisoning. And let's not forget general worries about the uncertain economy, mentioned by 12 percent of respondents.

BY KERRY PIPES

MADE FOR *Online*

TV

Empire Builders tell their stories in new video series

Burton W. Folsom uncovered something revolutionary about capitalism in 19th century America. And in his books, he debunks commonly held views about the role of capitalism in the social developments of the Industrial Revolution and the Gilded Age.

Nowhere does Folsom make his case more clearly than in his 1998 book, *Empire Builders: How Michigan Entrepreneurs Helped Make America Great.* In this book, he wrote about a number of great business leaders who made their state and nation into a great economic power by the end of the 1800s.

What does any of this have to do with franchising? Plenty. Folsom's understanding of the critical importance of entrepreneurs and how they affect their cultures helped frame the development of EmpireBuilders.tv, Franchise Update Media Group's new online video series of interviews with successful multi-unit and multi-brand franchisees.

"Folsom focused on a number of great business leaders who, through their failures and successes, made their state and nation into a great economic power by the end of the 19th century," says Therese Thilgen, CEO of Franchise Update Media Group.

"The visionary entrepreneurs in the book—John Jacob Astor, Herbert Dow, and Will Kellogg—produced tens of thousands of jobs. They built up Michigan's economy when many of the early leaders of the nation thought Michigan would never amount to anything," she says. "Then it hit me that franchisors—and in particular the multi-unit franchisees who have it all on the line—are today's Empire Builders."

Thilgen says the goal of EmpireBuilders.tv is to showcase the lessons learned and the personal stories of the multi-unit franchisees who have taken huge risks, and failed and overcome repeatedly—and show the way to success for the rest of us. Thus was born the idea to create EmpireBuilders.tv as a "three-dimensional extension" of what *Multi-Unit Franchisee* magazine has been doing in print with its profiles of multi-unit operators since 2004.

The online videos are divided into short segments focused on a specific topic or question, such as why these individuals chose franchising, what drives them, their leadership philosophies, how they measure growth, their biggest and smartest mistakes, even what they do for fun.

Key franchising players such as Gary Grace, Ted Torres, Aziz Hashim, John Metz, Ricky Warman, and Charles Smithgall were some of the first to be interviewed. Their stories are powerful, poignant, inspirational, and sometimes funny. Most clock in at 2 or 3 minutes. They are no-nonsense, quick looks into the worlds of these top operators.

Supercuts franchisee Gary Grace talks about becoming a franchisee in 1980 with a single salon. Over 31 years, he's opened 135, beginning in southern California and extending to New York and Hawaii.

John Metz discusses his first experience with franchising, when he bought a Howard Johnson's property with a restaurant that he planned to tear down. As he says in one of the videos, "I learned that franchising was a much better way to go than trying to be independent." Since then, he's also become a franchisor.

Aziz Hashim speaks candidly about his procedures for evaluating potential new brands. "We are always looking for brands that meet our criteria. Every year we do a very robust business plan and decide which brands would work for us. Then we go after those brands, engage with those brands, do more research with those brands, and look for opportunities within those brands."

These are just three examples offering a brief look into the insights and perspectives these empire builders give in their interviews on EmpireBuilders.tv.

"You have people from all demographics—from every socioeconomic level, ethnicity, and age group—sharing their honest stories of successes and failures," says Thilgen. "There are stories of kids who worked in fast-food restaurants when they were young who now operate dozens of units. And there are stories of immigrants who came to America in search of a better life and found it in franchising." In essence, she says, franchisees today are the broad shoulders of small business in America.

Franchising itself has gone through quite a transformation during the past half century. Single-unit mom-and-pop operators have given way to savvy multi-unit operators who wield power, influence, and the capital to back it up. The American Dream has grown up and gone sophisticated, and the stories told on EmpireBuilders.tv are as unique as the operators who tell them.

Scheduled programming

EmpireBuilders.tv officially launched in March. Franchise Update will continue to post additional interviews in the coming weeks and months.

Our hope is that these video snapshots will provide insights, lessons, and useful tips for other multi-unit franchises, as well as other entrepreneurs who may be considering a life in franchising. Through these videos, you can peek inside these professionals' best practices in both life and business, and catch a glimpse into the lives of the extraordinary individuals who have built successful businesses, dealt with hiring and motivating employees, faced tough economic times and many other challenges, and through it all remained true to their calling of a franchise Empire Builder.

There are many stories to be told. Tune in frequently and often! MUF

BY GARY GLOVER

Smart Patrol

Mobile payments fraught with security problems

The rapidly expanding mobile payments market is attractive to merchants because of the low entry barrier to obtain a smartphone or tablet device. Dozens of companies, acquirers, and payment entities offer mobile payment solutions, and hundreds of thousands of merchants use them. Despite its convenient and futuristic qualities, the mobile platform was not designed as a secure application environment and seriously lags behind in payment security.

If I were a hacker, I would invest my time in devising ways to attack mobile smartphones. Think of the sensitive data stored or entered in your smartphone, such as bank login information, credit card numbers, and your personal information. Because it is connected to the Internet at all times, a smartphone is at great risk for malware designed to grab sensitive information. There are two principal problems I see in processing payments through personal mobile/tablet devices.

Problem 1: The apps

The drawback with processing payments through a personal smartphone is that application installation cannot be controlled. App stores do their best to thoroughly review apps, but it's almost impossible to guarantee every app will play nicely in the sandbox. A point-of-sale transaction using a smartphone requires a card reader (e.g., Square) to read the data from the card's magnetic stripe. Hardware may clip into the audio input port or access the phone keypad. On most mobile platforms, access to incoming data from input devices may not be locked and could potentially be read by another running app. That rogue app could be listening for and intercepting unencrypted credit card numbers.

Here's a real-world example. A merchant who accepts credit cards through their iPhone downloads a flashlight application written by an ill-intentioned hacker. This hacker wrote the application to periodically "wake up" to listen for data via the audio port. When the iPhone is used to accept payments, the malicious code embedded in the flashlight app could potentially gain access to incoming payment card data from the unencrypted card reader or from the phone keypad, and send the card numbers back to the hacker who developed the flashlight app.

Problem 2: The phones

Mobile payments blossomed overnight before the phone industry was truly ready. Smartphones were never designed for data security like full-fledged computers are. To truly secure the mobile payments space, smartphones must change. In the future, payments may be processed on a separate secure chip integrated into phone hardware, inaccessible by other applications. When that happens, secure processing on mobile devices will be no problem. But until that time, security for mobile payments is extremely limited.

Best practices for mobile payments

The best scenario for merchants who wish to accept mobile payments is to dedicate the use of a smartphone or tablet solely to payment processing. This means the ability to install apps, access phone settings, send or receive texts, make or receive a call, or take photos must be disabled. When the device is on, it strictly runs the POS application, and at the end of the day all devices are collected and kept in a secure location. If done correctly, this solution can be completely PCI compliant. I have personally seen taxicab companies successfully implement this mobile payment solution. The disadvantage of device dedication is it completely defeats the purpose of owning a smartphone that doubles as a communication device.

How can I safely use my personal device for mobile payments?

The safest option for using a personal mobile device to accept payments is to use an encrypt-at-swipe hardware reader. Early adopters of swipe devices were virtually throttled by the security industry for not encrypting data before it entered the phone, so companies like Square have recently upgraded their hardware to encrypt-at-swipe. Encrypting at swipe indicates that the device encrypts card information *before* it goes into the smartphone, and the mobile processing service decrypts it *after it leaves* the phone. Even if someone hacks the smartphone, or if a smartphone app listens to the audio port, all that would be detected is a useless string of ciphertext. A word of caution: manually keying a card number is not a safe alternative if the hardware doesn't read and encrypt the card data. Merchants should perform due diligence when selecting mobile POS hardware to ensure it supports encrypt-at-swipe.

Future regulations

The Payment Card Industry Security Standards Council (PCI SSC) is the organization responsible for defining mobile payment security requirements. Until the final standard for mobile payments is defined, the PCI SSC counsels merchants to "make their own risk assessments around the use of mobile payment solutions, considering the advice of their QSA and in consultation with their acquirers and applicable payment brands" (PCI Security Standards Council, 2011). Even after guidelines are released, there will be a transition period between current smartphone devices and future smartphone devices with secure chip technology.

To summarize: mobile is a pernicious and promiscuous environment for payments. Until future mobile payment regulations are published, the most secure ways of mobile processing are dedicating a device or using encrypt-at-swipe hardware. MUF

Gary Glover *is director of security assessment at SecurityMetrics and holds QSA, PA-QSA, CISSP, and CISA certifications. He began his career at McDonnell Douglas developing AI and expert systems for rocket and propulsion systems. He spent nearly 10 years in software engineering and is the author of two U.S. patents.*

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BY STEVE LEFEVER

The Sponge Technique

Squeeze the balance sheet to improve cash flow

Everyone knows the value of a sponge: it absorbs water. This is a pretty good deal. Well, your company's balance sheet is just like a sponge—except that it soaks up cash instead of water. This is not necessarily a good *financial* deal. As a sponge nears its capacity to absorb additional water, it becomes increasingly less efficient. The same thing occurs with your balance sheet, a phenomenon that has two basic causes.

Increasing sales—or growth—creates a need for additional money to finance an increased level of assets. As we have noted before, the main source for most companies is from creditors—in other words, debt. Risk (in the form of increased debt) increases accordingly, and increasing interest expense may even put downward pressure on profits.

Furthermore, growth in sales is often accompanied by a *decrease* in the efficiency of operation. This inefficiency really surfaces on the balance sheet as proportionally more assets are required to support new sales levels. In other words, the *rate* of asset growth increases faster than sales; you make the same percentage profit—but you make it less efficiently.

So what do you do? From my perspective, the clear message in a growth situation is straightforward: *manage better*. I've listed a few of the ways that can be done:

- Manage current assets (inventory, A/R) more efficiently
- Restructure debt (long term, not short term)
- Make more profit
- Sell existing unproductive assets
- Curtail expansion
- Lease fixed assets
- Implement sale-leaseback of existing fixed assets
- Accept more risk (i.e., more debt)
- Don't grow (use pricing, etc. to limit growth)
- Get new equity—a passive investor or active partner.

This list represents the action steps necessary to manage growth effectively. You need to arrive at the particular *combination* of components that will work for you. Remember, when it comes to the balance sheet, doing "nothing" is usually the worst possible decision.

By earning the same level of profits more efficiently, sufficient cash is "squeezed out" of the balance sheet to significantly reduce the borrowing requirements.

Consequently, this concept that we've labeled "Financial Gap" can be applied two ways. First, it's effective as a tool to estimate borrowing needs in a growth situation—at an *existing* level of asset management efficiency. More important, it's an indispensable management planning tool for developing goals and standards of performance for efficient management. Keep in mind that there are three fundamental parameters in evaluating the growth capabilities of expanding companies:

1. How efficient the company is now.
2. The financial requirements of a particular company; that is, what new assets will be needed.
3. The owner's abilities as an "asset manager"—strong or weak.

Efficiency translates to squeezing your balance sheet to free up the funds you need to grow.

Growth is reflected on the profit-and-loss statement as increases in sales and (hopefully) profits. The "cost of growth" is generally reflected on the balance sheet in the form of increased debt to offset decreased efficiency.

These are *controllable* issues. If you choose not to control them, then your banker may choose to "help." This help will come in the form of restrictive covenants regarding asset management; that is, turnover requirements for inventory and/or accounts receivable. (Listen for the comment: "I'm doing this for your own good!")

What they're really saying is that borrowing implies a partnership: you supply efficient management and your banker will supply sufficient funds. Banks are in business to finance efficient growth, not to subsidize your inefficiency.

The sponge analogy? Well, efficiency translates to squeezing your balance sheet to free up the funds you need to grow. Otherwise, you'll find it squeezing you. 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. Their programs have been taught around the globe and are now available online as an on-demand video program that can be accessed 24/7/365. Learn more about this educational course at www.profitmastery.net. or contact him at 800-488-3520 x14 or lefever@brs-seattle.com.*

AdIndex

BY CAROL M. SCHLEIF

Don't Be a Yo-Yo!

Keep a cool head as economic indicators rise and fall

In my previous column I made several suggestions for successfully navigating our times to a brighter future. The markets had been historically, mind-numbingly volatile all year, taking the gyrations to record proportions. Frustration with the status quo among investors was high and concern over volatile stock prices, developed country politics, and consumer and government debt levels dominated the media. What a difference a couple of months can make! When the numbers were tallied in early April, we had just finished the best first quarter since 1998.

We need to stay calm because we're not through yet.

True, the markets got off to a roaring start this year. Investors suddenly swung from nervous and uber-conservative to seeking return—and risk—in far-flung places and asset classes. Emerging markets rallied, while blue-chip, dividend-paying stocks languished. The outflow in stock mutual funds staunched somewhat as the indexes soared.

As reported by global consulting firm McKinsey & Company, CEOs noticed. In its March 2012 *Economic Conditions Snapshot*, McKinsey found that more than twice as many of the world's CEOs surveyed believe the economies are better now than six months ago—even in Europe—and an even larger share expect they'll be even better six months from now.

From watching this survey for years, I believe the trend is clear: *Executive optimism or pessimism is more tied to stock-market behavior than economic reality.* For example, when asked this question back in June 2007, only 13.2 percent of CEOs thought their countries' economies would be moderately to substantially worse in six months.

I believe the trend is clear: Executive optimism or pessimism is more tied to stock-market behavior than economic reality.

Yo-yo investing

This tendency to vacillate from fear to optimism and back again is an age-old issue in the stock market. Since anything denominated in numbers is precise, accurate, and measurable, we'd like to think participants' behavior and results will be much more rational and predictable, right? Our business schools still teach theories that hold markets are efficient and investors make decisions only after thoughtful analysis of risk and potential return.

However, as we've noted so many times in this column, markets and businesses and politics and all sorts of institutions are driven *instead* by humans, and we certainly have a tough time separating emotion from decision-making.

A chart we've used with clients over the years visualizes the yo-yo investing this tendency can produce if we let emotions run rampant, illustrating how the market's (or more accurately, the economy's) intrinsic value typically follows a steady upward path over the long haul while sentiment goes up and down like a yo-yo. We go from irrational exuberance to Chicken Little paranoia—overshooting and undershooting. From cautious optimism, up we go to excitement, thrill, and exuberance before plummeting down to anxiety, denial, fear, desperation, panic, capitulation, despondency, and depression. And back again. And again.

The cycle used to take years but occurred three or four times last year alone. Global strategist James Montier puts it best when he says, "Each of the spikes in volatility occurred when investors went from losing their minds at the top of the market to losing their nerve at the bottom."

Underlying problems remain

It's fascinating how investors will overlook and rationalize away even legitimate concerns during times of optimism and do the opposite during rocky periods when they willingly ignore obvious signs of real growth, turnaround, and opportunity.

Fortunately, when we recognize our yo-yo tendencies, we can circumvent this process in our individual lives through saner actions in our portfolios and our 401(k)s. After all, we're the only creatures capable of putting a pause between a stimulus ("Stocks are going up, everybody but me is making a killing!") and our typical response ("Gotta buy!"). Personally, I suspect the current interlude may be one of those points in time where pausing is very important. Why? Because the fundamental, underlying problems remain.

Yes, better stock prices alleviated the immediacy of some of last year's fears, but a robust equity market doesn't change the fact that most developed countries are still overloaded with sovereign debt, unemployment is still painfully high, economic growth is still sluggish and lackluster, and politics are still contentious. People have just chosen to forget those woes for a bit and take an overly optimistic breather.

Did you notice that's even represented this spring by retailers trying to cash in on the mood? Bright colors are everywhere—neon pink, green apple, firecracker orange, "pool" blue, and lemon yellow—in everything from shoes to deck furniture!

Don't get me wrong. It's lovely to have put some psychological cushion and Dow points between the present and last year's debt-downgrade despondency. But the underlying issues remain, and there are no quick fixes. Only time and lots of hard work and political compromise can right our nation's ship and put us on solid footing again.

Meanwhile, let's not get so swept up in the relief that we forget Investing 101:

Keep your head. Be diligent, do your homework, and pay attention to the underlying fundamentals.

what matters most is to know the *true* value of an asset you own or are thinking about owning, instead of getting caught up in "crowd-think." It's like not borrowing the max of what an underwriter would lend you on a personal property; a wiser course is trimming when the crowd is overvaluing and buying when they're undervaluing.

When we evaluate stocks, we look at the value of the entire company as if we were to buy it and take it private ourselves. So in these heady, up-market times, I say, "Keep your head. Be diligent, do your homework, pay attention to the underlying fundamentals, and don't try to keep up with the stock market Joneses." You will stay the course and prevail over the long term.

We're not through yet… and never really will be. MUF

Carol M. Schleif, *CFA, is a director in asset management at Abbot Downing, a Wells Fargo business that provides products and services through Wells Fargo Bank, N.A. and its affiliates and subsidiaries. She welcomes questions and comments at carol.schleif@abbotdowning.com.*

BY JACK MACKEY

Above and Beyond

Creating a culture of surprise and delight

The Multi-Unit Franchising Conference was held in Las Vegas this past April. Would it surprise you to know that 70 percent of all revenue generated by Las Vegas casinos is non-gaming revenue? It's true. You can walk around the Strip and see that Las Vegas offers many experiences other than gambling, and that, after years of having the reputation of being "sin city," Las Vegas is becoming a family town. When someone pointed this out to me, I started to notice all the inter-generational activity. For those who attended, did you notice how many older men were with their 30-something daughters? It was great to see how the family is getting back together in Las Vegas.

I couldn't resist telling you that story, and I have a point to make. I continue to admire how Southwest Airlines is the only air carrier that uses humor to surprise and delight customers. By making fun of the boring safety announcements, they also get more customers to listen to those announcements than any other airline.

As a frequent flyer, I thought I had heard everything, but on my flight to Las Vegas I heard some new things. "Please turn off all cell phones. If you get caught with it turned on, you will lose your bathroom privileges on this two-hour flight. Also, the FAA forbids tampering with the smoke detectors, or with the recently installed security cameras inside the restrooms."

Or, "In the event of a water landing on the way to Las Vegas, pull out the plastic yellow vest, inflate it, then just kick, paddle, kick, paddle, kick, paddle… all the way to shore. Your flight attendants will be right behind you with peanuts, pretzels, and free drinks."

Right after they made these announcements, there was a slight delay on the tarmac. So the flight attendant in the back of plane asked the passengers to please turn around and look in the last row and say hello to Alex, a 4-year-old who was celebrating his birthday. As Alex waved, the flight attendant said "Folks, please let's have everyone turn on their flight attendant call button and we'll light this plane up like birthday candles on Alex's cake. Then we can sing Happy Birthday to Alex and help him blow out the candles." That is exactly what we did, 130 strangers making the best of a slight delay and making a memory I am sure Alex's mom will never forget.

You can't script that last part. Only employees who have high service aptitude and who feel empowered to create special connections with customers can create those kinds of extraordinary customer experiences that people will talk about—just as I am doing now.

That spontaneous birthday sing-along on Southwest during an otherwise aggravating delay, is an example of what customer service expert John DiJulius calls "above and beyond" service, moments that create unforgettable customer experiences. In his best-selling book, *What's The Secret? (to Creating a World Class Customer Experience)*, DiJulius lays out a very actionable plan that any franchisee can adopt to create a culture of high service aptitude.

To use these ideas, you (as the franchisee) have to really believe in the business model that says creating raving fans of your current customers is essential to earning their loyalty. If you don't have real passion around earning customer loyalty by delivering special customer experiences, then no "technique" that I describe will help you.

In fact, the trouble with giving examples of great service is that people often miss the "concept" and go straight to the technique. There is probably no other airline that can copy the Southwest techniques and get the same results. Why? Because humor is and always has been part of the DNA of Southwest. It is authentic. It is who they are.

Marcus Buckingham tells the story of a very successful store manager at a Best Buy in South Florida who completely turned that location's customer satisfaction and sales around. How? What was the technique? Before I tell you the technique, let me tell you that this manager bore a striking resemblance to a young Fidel Castro. In South Florida, this is significant.

So when our young Castro lookalike took over as store manager, he put up posters in the employee break room and the back of the house announcing "La Revolucion!" He had his assistant managers dress in Army fatigues to support the theme. He got all of them military-like whistles and instructed them to "blow the whistle" whenever they caught employees doing something right. The whole atmosphere of the store changed with this approach to recognition of employees and the theme of customer service "revolution."

I don't think you can use that technique, because it isn't who you are. But you can use the concepts of having fun at work and catching people doing something right and rewarding the behaviors you want so you can get more of those great customer service behaviors.

So let me share three service concepts and challenge you to apply them to your business in a way that is authentic and is, in fact, who you are. In other words, the exact techniques are up to you.

First, you must be brilliant at the basics. Whether you are cutting hair, cleaning homes, or serving meals, you must show your customers that you deliver on what you promise every time. That means you have achieved operational excellence in the area in which you compete. Keeping your service promise is how you win the trust of customers.

Second, you must create emotional connections with customers. That means your employees have to behave in ways that make customers smile or laugh or feel like VIPs. Being brilliant at the basics wins you trust, but creating emotional connections with customers makes them *love you*. In this deliberate effort, intent counts more than technique!

Third, you must create a service excellence culture that is so contagious that every new employee instantly feels it and understands what behaviors are expected—and which are unacceptable. Your company must have a set of service behaviors that you always do, and another set of behaviors that you never do. Culture is simply, "How we do things around here."

Do you have the vision and leadership to execute these three concepts? MUF

SMG Vice President **Jack Mackey** *helps multi-unit operators improve customer loyalty and drive growth. Contact him at 816-448-4556 or jmackey@smg.com.*

BY MEL KLEIMAN

Online Hiring 2.0

Using social media to find employees

As is always the case, I learned a lot at the annual Multi-Unit Franchising Conference this year. Most interestingly, while more and more franchisees are using social media to connect with existing customers and attract new ones, more than 90 percent of those I polled are *not* using these tools to also connect with present and/or potential employees. If you are part of this non-users group, I think I understand why.

First, there's no sense of urgency. Employee turnover is low and there's an overwhelming response to every job opening that does occur. Second, many feel they do not have the time to learn how to use and manage these yet-to-be-proven digital tools. I suspect some reluctance may also be the normal, human aversion to change and perhaps a bit of technophobia.

Remember when you just put out the "Now Hiring" sign, placed a newspaper ad, and took applications? These tools opened your doors to a small percentage of the workforce—mostly unemployed people actively looking for jobs. That was the world before the web.

Then along came the Internet, the infrastructure for the World Wide Web, version 1.0. Users interacted with static web pages, but didn't really communicate through them. Job openings were on websites, but few accepted online applications. Onsite application kiosks, email, and online bulletin board systems opened new doors for recruiting. Snagajob, Monster, and CareerBuilder connected employers and job seekers, but during Web 1.0 far fewer people were online.

Web 2.0 describes today's environment, where user-centric applications facilitate information sharing, collaboration, and portable mobile technology. Now, the doors to your business can be open to everyone everywhere 24/7.

In Web 2.0, Craigslist is the new newspaper, and almost everyone can avail themselves of services like Monster. Even one-person operations have websites, and almost all employers use their sites to post job openings and accept applications. Aggregators, like Indeed, crawl all online job sources to create a "one-stop shop" for job seekers. However, these doors are still seen by only a small percentage of the labor pool—those actively seeking work.

The good news is that spreading your recruiting message is now significantly easier because social networks can connect you to the broader labor pool—all the good people who are already working.

Spreading your recruiting message is now significantly easier because social networks can connect you to the broader labor pool—all the good people who are already working.

According to the Pew Research Center, 65 percent of adult Internet users are members of and regularly visit social networking sites like Facebook, Twitter, and LinkedIn. These sites open your doors to higher-quality applicants because your social network connections are the people who know your company best: employees, customers, community members, and vendors. When they rebroadcast your job openings to their friends, they are recommending you as an employer. By building your social network presence, you can collect a large following of "virtual recruiters." Here are some things you can do to get started:

1. Invite applicants to your virtual front door. Your website should let potential employees learn about your company, job openings, and the best ways to apply. Later on, when you activate your social recruitment networks, this is where you will send them.

2. Make it easy to apply online. Many employers make the mistake of overcomplicating the process. They require applicants to enter their entire history one item at a time. No one enjoys filling out laborious forms, and passive jobseekers (working, but open to a change) won't take the time. Make it easy by accepting their existing resume/application and cover letter by email.

3. Use Craigslist to find local talent. Craigslist has to be the simplest site out there. It serves all major and most minor population areas on the planet so you can target job applicants in your city or town.

4. Get on Facebook and/or Twitter. By having a presence on each, chances are you'll connect to a fair number of customers, employees, and vendors. Here's a quick-start guide for joining the "big two":

a) Facebook: Facebook treats individuals and organizations slightly differently. Individuals build profiles that focus on lifestyle, and their networks consist of "friends." Business profiles are less personal and build their networks by asking people to "like" them. When an individual user "likes" your business, Facebook tells their friends by posting it on the user's "wall." Depending on how each user sets up their profile, the first user's "like" may also automatically post to their friends' walls as well. These wall posts and "likes" drive more traffic to your business profile.

When you create an account, the main

setup page is designed for individual users. Near the bottom, you'll find: "Create a Page for a celebrity, band, or business." Just click the link and follow the instructions. Then search for employees, customers, and other people you know and ask them to "like" your business. Upload some pictures and add new content a couple of times a week to build interest.

b) Twitter: Twitter is a little more business-savvy. They offer a 20-page "Guide to Twitter for Small Business" to get you started. Twitter has a simpler interface, with individual users and organizations treated the same. After your Twitter presence is built, you'll post "tweets." When another user "follows" you, they automatically receive all your tweets. Twitter uses symbols to keep messages short: "@" identifies a specific user. For example, I am "@MelKleiman." Hash tags (#) place tweets in categories. For example, a tweet containing "#jobs" is automatically placed in the "#jobs" category. A user who clicks "#jobs" in any tweet is taken to a page listing other tweets with the same hash tag where they'll find other users with similar interests.

Many employers make the mistake of over-complicating the process.

To set up your account, visit the setup page, enter your information and pick a descriptive user name. Then take the 60-second tutorial. Post a few tweets each week to build your profile. If you choose to link tweets back to your website employment page, you'll quickly use a tweet's 140-character limit. To make tweeting easier, go to TinyURL to create a permanent short link to your website.

Using social networks to promote your company as a great place to work will also promote it as a great place to do business. Both will help you build your bottom line!

For an in-depth (yet easy-to-follow) guide to using and managing the many different Web 2.0 door-opening tools available in addition to Facebook and Twitter, email lhamel@humetrics.com with "Social Media" in the subject line. Normally a $50 value, complimentary copies are being made available exclusively to *Multi-Unit Franchisee* readers. MUF

Mel Kleiman *is a speaker, consultant, and author on strategies for hiring and retaining the best hourly employees and their managers. He is one of only 650 speakers worldwide to have earned the Certified Speaking Professional designation and is president of Humetrics, a leading developer of systems and tools for recruiting, selection, and retention. He has written five books, including* The 5 Firsts: A Simple System To Onboard and Engage Top Talent, *and he publishes a regular blog. Find him at 713-771-4401 or at mkleiman@humetrics.com, www.Humetrics.com, and www.KleimanHR.com.*

 BY DEAN ZUCCARELLO

Outsourcing To Add Value

Using third parties to enhance valuation

During the initial stages of an exit strategy engagement with our clients, we spend considerable time gaining a full understanding of the client's business. One component of developing this strong grasp of the client's specific situation is uncovering situations that can enhance the overall profitability of the client's company. This process is critical in assessing the "true" value of the business, which is one of the valuable services we provide our clients.

Typically, our areas of focus will include the investigation of issues such as temporary impacts to the business (e.g., road construction), facets of the business that have not yet matured (e.g., new unit development), and corporate overhead structure to ensure that any excess owner-specific compensation and benefits are removed.

In 22 years representing restaurant and franchise clients, we have found a wide disparity in the manner that our client companies operate, and we have noted the impact this can have on the profitability of their businesses. Because companies do not typically share information with their competitors, best practices for managing a business are often proprietary for each company. Even with franchise businesses, it is rare to see a sharing of operational information that facilitates the blending of best practice methodologies.

Most entrepreneurial companies tend to operate their businesses with very little change over the years. They adopt an organizational method and established way of doing things, and tend not to vary much over time. By taking a fresh approach and examining a few key areas of the business, we have found that many clients can uncover a wealth of benefits.

By taking a fresh approach and examining a few key areas of the business, we have found that many clients can uncover a wealth of benefits.

So why are we discussing this in an article about exit strategies? Simply stated: so that we may enhance the overall profitability of and value for our client companies. The types of adjustments referenced earlier are common for a valuation/assessment process. However, implementing some best management practices can not only enhance the value of a company when it is seeking an exit, but can also provide additional operating and financial benefits in the interim.

Outsourcing can boost value

Outsourcing financial administrative functions is a strategic option that quickly reduces overhead costs and results in an increase in the market value of a multi-unit business. By outsourcing internal departments such as accounting and payroll, multi-unit business owners report saving as much as 35 percent versus their previous in-house operations—*savings that are typically larger and realized more quickly than those generated by internal process improvement initiatives.*

And, according to David Oden, president of InfoSync Services (the leading provider of comprehensive outsourced accounting, payroll, and operational reporting services to multi-unit restaurant companies), the benefits go well beyond cost savings:

"Through outsourcing, business owners are able to achieve immediate measurable improvements in their company's G&A costs, financial systems, controls, administrative processes, and reporting, all without large capital investments. But the greatest benefit is the hardest to measure—the freedom of business owners and their executive teams to focus on business operations without the distraction of also managing the day-to-day activities of a financial administrative organization. The financial team of the business spends more time focusing on enhancing results and less time on processing data. This sharper focus on operations leads to bottom-line improvements that will further enhance the value of your business."

Outsourcing financial functions offers other strategic advantages as well. Thinking of selling a certain concept or certain geographic locations of your multi-unit business? Outsourcing provides a variable cost structure per location, per month that will immediately allow you to right-size your accounting and payroll processing costs for the concepts or locations of your business that you retain. This works for growing companies as well. The ability to increase the scalability of administrative functions overnight is a huge advantage to those firms growing by "leaps and bounds," usually through acquisition.

Outsourcing financial functions can also be an excellent way to provide a financial safety net by providing checks and balances by an independent third party.

Finally, using an outsourced financial service allows a company to benefit from state-of-the art technology without the obligation of constantly upgrading internal resources. Technology continues to provide greater efficiencies in operating a multi-unit business, but keeping up with and implementing the changes is time-consuming and costly. Using an outsourced third party can be a very efficient way to take advantage of the most up-to-date technology.

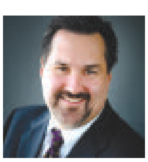
Fixed monthly cost reductions

For the entrepreneur, constantly monitoring and negotiating terms on repetitive operating costs can be not only time-consuming, but also an overlooked opportunity to save money. In many cases, once these services are put into place, they often continue without audit or renegotiation. The time constraints of running the business on a day-to-day basis often prohibit management from looking into these situations.

Today, however, there are third-party firms that can perform this task with no up-front financial obligation to the business owner—just a sharing in the financial savings generated from their activities. They will research past invoices for errors and pursue any recovery, and also competitively bid new services agreements. Typical areas of focus include waste, insurance, utilities, worker opportunity tax credits, workers' compensation charges, property tax and CAM charges, and telecom, to name just a few. The results can be staggering. With some effort on the part of management, a company can enjoy the financial benefits of a lower cost structure and a significantly enhanced valuation of the company.

A well-conceived exit strategy starts with thoughtful planning.

A well-conceived exit strategy starts with thoughtful planning, and requires consistent and diligent execution of that plan. Outsourcing of certain cost centers, G&A management, and quantifying events that have temporarily affected a business are just a few ways a business owner can position their company for maximum value at exit. 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.*

BY DARRELL JOHNSON

Phase Two

Economic cycles shed light on tomorrow

One of the most challenging components of making decisions to invest in franchise units is trying to predict the future. Predictions require assumptions, and in these difficult economic times, when global events have direct ramifications domestically, developing a reasonable set of assumptions is hard.

Or is it? Using history as our guide, the U.S. economic forecast for the next few years is rather predictable. Hundreds of years of economic downturns caused by financial crises like the one we experienced in 2008 follow a pattern that consists of three phases.

For the first two to three years there is a significant contraction in lending as borrowers deleverage and bank concerns over loan losses trump their desire for earnings. Until the impact of the downturn is understood in credit loss ratings, banks (and their friendly regulators) are unable to determine whether they have adequate capital reserves. The result is an unwillingness to lend to just about anyone. From 2008–2010 that's exactly what happened as borrowers deleveraged and banks significantly reduced lending, so score one for historical predictability.

The second phase of three to five years is characterized by a choppy economic recovery and increased competition for credit. Business and consumer deleveraging both slow and then start climbing again. Simultaneously, banks start to lend again, but on very conservative terms and only to well-qualified borrowers. Banks have quantified their losses during the previous phase. They know their capital positions, but still do not have enough earnings pressure to push credit out. The chief credit and chief risk officers hold sway over the chief lending officers. While banks have the capital to create the ability to lend, the challenge is their willingness to lend. Small businesses can solve the willingness part with information about their business and its operations that makes it more compelling than the next small-business borrower prospect.

Does all this feel familiar today? I believe we entered the second phase in 2010 and that the choppy recovery and conservative lending will continue for the next two to three years. Perhaps the most significant difference in *this* second phase downturn is not its depth, dramatic by historical standards, but the amount of information that consumers, businesses, and banks have to try to decide what to do next.

For franchising, that information is transforming what franchisors are beginning to pay attention to. In what many of you might consider a cruel twist of fate, we have banks to thank for this, and it will have ramifications well into the future, especially for multi-unit operators. Banks are beginning to evaluate a *brand's* performance before looking at an individual borrower's request. They have applied common sense and determined that a brand's historical unit, system, and franchisor performance is a good predictor of franchisee success, hence, loan success. In essence, they are asking, "Is this brand creditworthy?"

Multi-unit operators are among the most entrepreneurial of business people. You create the future every day.

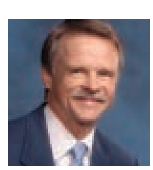
FDD information is insufficient to make that determination, so new information is being created. Unit continuity rates, real failed unit rates, and the underlying operational/financial causes, sales/investment ratios, time from opening to breakeven, and so forth are becoming expected information in the lending community. Under the logic that you get what you measure, lenders force franchisors to report the outcomes and focus on the causes, which is why Bank Credit Reports are in demand by lenders today. All this is good news for the franchise business model and multi-unit operators, even if the reasons it came about are painful to live through.

That brings me to the third phase, which I'll call the new normal. When the choppy economic recovery stabilizes (probably around 7 percent unemployment, high by historical standards, but I think a realistic expectation) and banks begin to widen their credit boxes, we will have arrived. I'm not sure what that economy will look like then, but I will make a few observations.

We have benefited from a four-year period of almost unprecedented low cost of capital. For planning purposes, I suggest making investment decisions with a cost of capital of 9 to 12 percent in the out years starting around 2015 or 2016. Our national debt levels and the growing need for capital in developing countries will likely cause our rates to rise, perhaps dramatically.

Several demographic trends are hard to ignore, just as they are hard to alter. Consumer preferences are changing as Baby Boomers transition into a less active period and the under-30 age group dominates consumer spending. Finally, housing will stabilize in the next few years as the backlog of mortgage delinquencies and bankruptcies works slowly through to resolution. That in itself will make consumers feel better about the economy.

Perhaps the best way to address the third phase in the context of making business decisions today is to follow the advice of one of the 20th century's top management gurus, Peter Drucker. "The best way to predict the future is to create the future." Multi-unit operators are among the most entrepreneurial of business people. You create the future every day. MUF



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