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Multi-Unit Franchisee

ISSUE I 2013

MEGA 99

Tony Lutfi soars from 52 to 134 units in 3 years

- **KNOW WHEN TO FOLD 'EM**
  Shuttering unprofitable units
- **DYNAMIC FAMILIES**
  Three tales of family franchising success
- **MEGA 99**
  Annual ranking of the biggest operators

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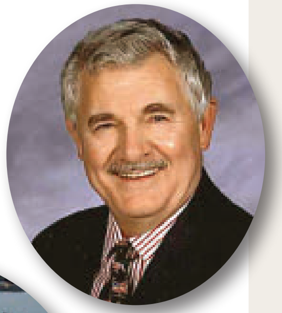
Multi-Unit Franchisee contents

ISSUE I, 2013



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Chairman's Note

BY SEAN FALK

One Conference for All

When I started in franchising more than 14 years ago, the "normal" at that time was to open a location, work it, and be successful. If you wanted to open multiple locations in multiple cities or states, you were kind of abnormal, or on the fringes of a system. Today, there is a higher expectation: that you're going to come in and be a

multi-unit owner right from the start. And with that, come some challenges.

Most franchise systems have franchisees who have already figured out how to operate the business model they have in place. Franchisors have operations manuals, site selection committees that help you find a good location, and marketing campaigns that help you be successful. The one thing they don't have is a process to teach and train you about multi-unit ownership. That's where the Multi-Unit Franchising Conference really helps fill the void.

There are two scenarios for franchisees considering multi-unit ownership as a way to diversify their holdings: 1) adding more units of their current brand, or 2) adding a new brand, or brands, something more and more owners are considering.

In the first scenario, the franchisor can at least come up with a curriculum or a mentorship program that allows a franchisee to see best practices from multi-unit operators in their system. The franchisor also can extrapolate when the multi-unit owner can expect to need administrative, operational, or regional support based on the complexity of the business model they have in place. In the second scenario, unless the franchisor has several brands of their own, they are (understandably) of little help to franchisees looking to add new brands.

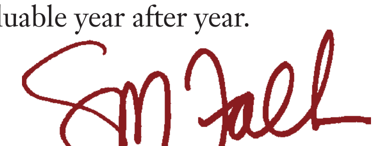
Regardless of the action (or inaction) of the franchisor, the Multi-Unit Franchising Conference can satisfy both needs, offering programs that address both multi-unit ownership within one brand and multi-brand ownership involving several franchisors.

This conference is completely focused on the needs of multi-unit franchisees. That's why attending each year is so important to me. The networking at this event is incredible. The peer-to-peer contact with other multi-unit franchisees is invaluable. You will receive so much—in both resources and education—you can't possibly learn on your own while you are busy running your business.

And the content the conference has to offer is premium: no other conference in the nation covers this type and range of content. The Advisory Board, composed of multi-unit franchisees, spends a lot of time creating a conference that will be most valuable to multi-unit operators. Some of the content will help you understand how you need to set up your organization, your back room, and your support to be able to grow from 1 to 5 stores, from 5 stores to 15, or from 20 to 100.

We have all levels of franchisees there. I am a 12-unit operator, but we have some franchisees starting out with just a couple of units, and we have some with several hundred locations. So there's the knowledge base there for wherever you are in the spectrum of ownership. As a result of all this, attendance at the conference has been expanding for the past 10 years, even during the deep recession we just came through.

So I am really looking forward to seeing all of you at this year's conference. Come to Caesars Palace in Las Vegas at the end of March and learn great things. It truly is a one-of-a-kind event that I continue to find invaluable year after year.



SEAN FALK

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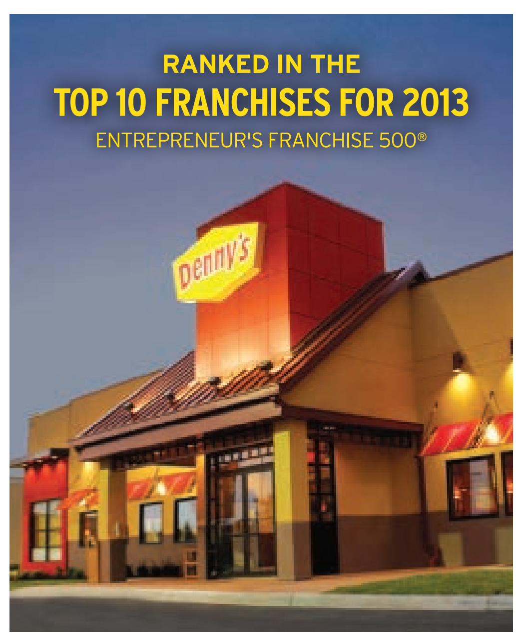

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“Now I manage 25 Burger Kings with only three office staff. The only way we could ever do that is with Bill.com”

—David Ostrowe

“Have it your way” is a strategy that has been very effective for Burger King, because it guarantees customers get exactly what they want.

David Ostrowe, owner of 25 Burger Kings in Oklahoma and Louisiana, wanted to also have his way managing his accounts payable and cash flow. He turned to Bill.com to help him automate his back office financial process.

“We’re a fast-growth company and the only way we’ve been able to achieve that is by leveraging cloud-based systems like Bill.com,” says Ostrowe, “I can tell you, if we weren’t able to leverage that, we wouldn’t be able to grow as fast and efficiently as we have.”

Since he began using Bill.com, Ostrowe has cut his company’s paperwork by 80 percent. He handles all payroll for his 800 employees in-house, and before he discovered Bill.com, processing those weekly paychecks was soaking up so much staff time that he was on the verge of hiring someone else to do it.

“There’s only so much we can do on a given day, so we had to find a solution,” he says. “Bill.com saved us from having to outsource our payroll to an outside accounting firm, allowing us to save about $50,000 a year—and that’s a conservative number.”

A Whopping Reduction

Ostrowe’s company has been using Bill.com for about a year. He implemented the system in a few of his restaurants and quickly expanded it to every outlet in his chain. Bill.com has helped Ostrowe better organize his invoicing system, which is quite complex since he works with many different vendors in many different markets. Bill.com allows him to enter invoices directly into its system and choose how and when to disburse funds.

Before, Ostrowe’s process was to scan each invoice into the company server, keypunch it into QuickBooks, and file the paper invoice in a manila folder. Every week, Ostrowe would open the folder and go through the bills. If he had a question, he had to go to the server, find the bill, and send it to his accounting department to learn its status.

“We scan our invoices directly into Bill.com. That invoice is then automatically and immediately routed to the person who authorized that bill so they can approve it. Then it comes back to me to be paid,” he says. “Now when it’s time for me to pay the bills, I know the right person has approved them. Also, I have the discipline never to pay a bill unless it’s received the proper approvals.”

The process is so straightforward that Ostrowe’s 14-year-old daughter picked it up right away. “Granted, she’s a smart 14 -year-old, but she felt very comfortable with scanning and coding invoices into the Bill.com system and assigning people to approve those invoices,” he says. The people responsible for approval can review invoices and make relevant notes directly in the Bill.com system. So if an invoice is not approved, Ostrowe immediately knows why, and can say so in his letter to the vendor.

Anytime, Anywhere Access

Because Bill.com is in the cloud, Ostrowe’s managers can access the system anytime, anywhere—and he doesn’t have to worry about losing financial information in a flood or fire. Also, Bill.com guarantees all clients that if the relationship ever ends, for whatever reason, they get all their data back on a CD, no questions asked—a promise a lot of Bill.com competitors won’t make.

The efficiency created by Bill.com has freed up a lot of hours that Ostrowe now directs toward strategic efforts. In the past, he’d see every bill multiple times. “When it came time to pay, I’d always wonder, ‘Haven’t I seen this bill already?’” he says.

“It kind of scared me how easy and efficient it was,” he says. “When I was able to take a photo of a bill on my phone and upload it directly into the system and it took all of a minute and a half, I was blown away. I was hard sold after that. I sent a message to our Bill.com sales rep and told her we no longer had to be a trial customer. We were sold.”

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David Ostrowe,
Owner of 25 Burger Kings

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✓ CONFERENCES

Multi-Unit Franchising Conference Revs Up for Vegas!

Franchise Update Media Group's 2013 Multi-Unit Franchising Conference is gearing up for the 12th annual must-attend event for multi-unit franchisees. Building on the success of the 2012 conference, this year's event is expected to again generate record attendance. The 2013 keynote speakers are astronaut Capt. Mark Kelley, commander of the Space Shuttle Endeavour's final mission and husband of former Congresswoman Gabrielle Giffords; and Peter Guber, author of #1 *New York Times* best-seller "Tell To Win," and owner of the Golden State Warriors, co-owner of the Los Angeles Dodgers, and recently acquired Dick Clark Productions.

"Driving Profitability" is the theme of this year's conference, and Friday morning features a closing session called "Great Brands + Great Franchise Partners = Franchise Partner Profitability," led by Russ Umphenour, CEO of Focus Brands and former CEO of RTM Restaurant Group, the largest Arby's franchisee which had 775 units and 25,000 employees when he sold it in 2005.This year's event will be held March 27–29 at Caesars Palace in Las Vegas. The conference also will honor multi-unit franchisees with its annual MVP (Most Valuable Performer) Award in six different categories.

To preview the agenda, register for the pre-conference Golf Tournament, download the conference brochure, and learn more about the speakers, panelists, and sponsors, go to ***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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www.franchising.com/multiunitfranchisees/.

✓ NEW ONLINE VIDEOS

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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/***.

✓ FRANCHISE OPPORTUNITIES

Looking for your next franchise opportunity? Have we got the tools for you! Find articles on companies, concepts, industries, trends, and profiles—and search our features. Find franchisors looking for multi-unit franchisees, area reps, and area developers. Search by top opportunities, alphabetically, investment level, industry, by state, and more at ***www.franchising.com/.***

✓ RANKINGS

Check out our annual rankings of top franchisees and their multi-unit brands and find out "Who's on first." ***www.franchising.com/multiunitfranchisees/mu50.html,*** and ***www.franchising.com/multiunitfranchisees/mega99.html.***

✓ QUICK-LINK

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

✓ Do As You Say

"Everybody who works for me knows that if you say you are going to do something, you have to do everything you can to do it. And, if you can't do it, you have to tell the person you made a commitment to, 'I can't do this and here is why.'"

—Tom McDonald, 35 Burger Kings, 8 Panera Breads, 18 T-Mobile Premium Retail, 3 Fazoli's

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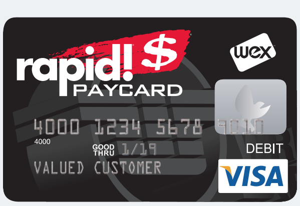
Cindy Vaughn
Co-Owner
Nearly Famous, Inc.



Overview

With the majority of its employees unbanked, Nearly Famous needed a payment method as reliable as paper checks but more efficient to distribute. The solution needed to reduce payday hassle without increasing costs.

Nearly Famous, Inc. is a Burger King® restaurant franchise located in the southeast U.S. They have been in business for nearly 20 years. The franchise mainly employs young employees who are part-time workers in their 20s.

The Problem

Most of Nearly Famous' employees do not have bank accounts – a not-uncommon occurrence in the quick-service restaurant industry, where as much as 75-90% of employees remain unbanked. Many of their employees were not interested in ever getting a traditional bank account. Some employees who had bank accounts were even eliminating their accounts due to high fees. Paper checks were the only payment method that worked for everyone.

But paper checks were inconvenient and time-consuming to distribute. Each pay period, a Nearly Famous manager had to reallocate several hours from his or her usual duties and instead drive to each of the franchise's locations to manually distribute payroll checks. Not only did this hamper productivity company-wide, but it also distracted employees from providing a positive experience to customers. Employees would arrive at the restaurant locations to collect their pay, distracting the location manager and creating bottlenecks in the service area.

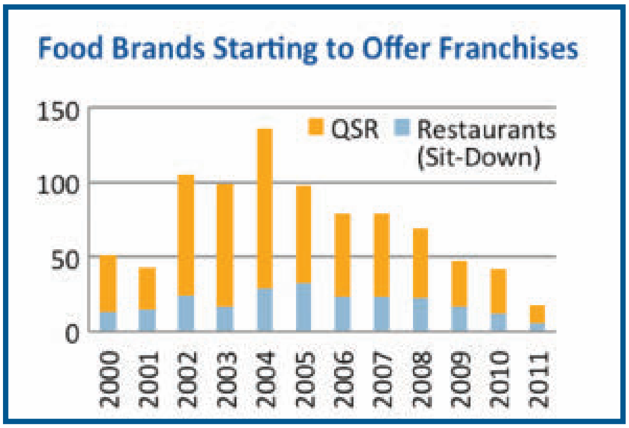
The Goal

Co-owners Brian and Cindy Vaughn needed an e-pay solution that was reliable, inexpensive, and above all easy-to-use. The solution needed to reduce payday inefficiencies while ensuring non-banked employees would be paid without interruption. They also realized that many of their employees would never have a traditional banking relationship, meaning direct deposit would not be an option.

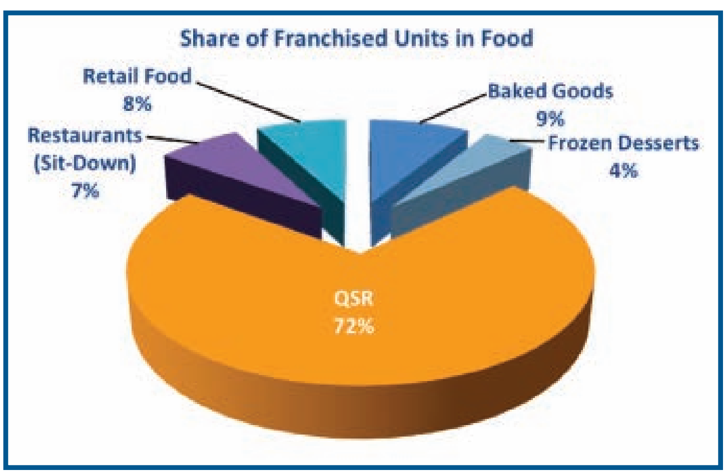
Franchised Food Industry Stats

By FRANdata

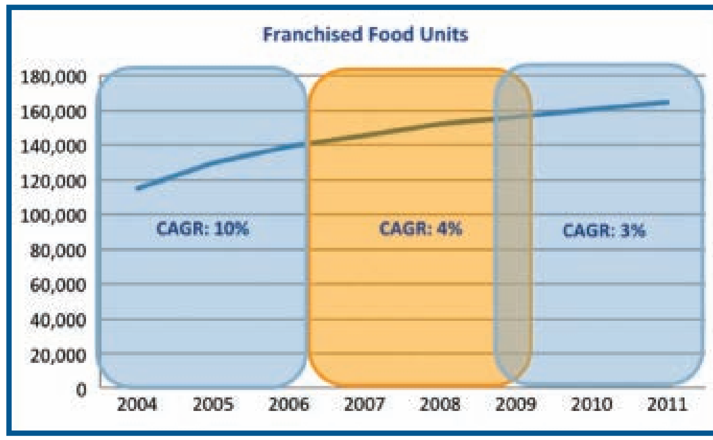
As of 2012, there were about 1,300 franchised food brands operating in the U.S.; roughly two thirds started offering franchises in 2000 or later.



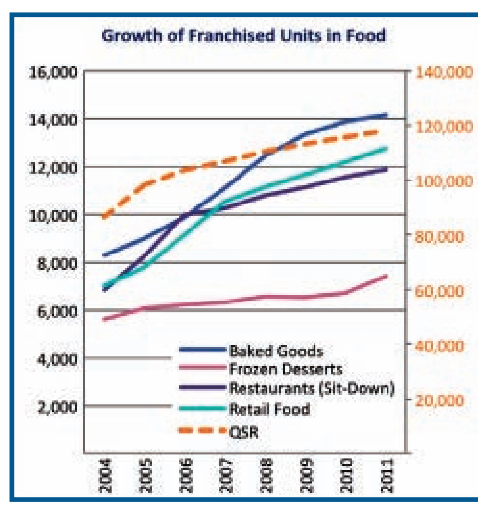
In 2011, these food brands operated an estimated 176,700 franchised locations. The largest industry by number of franchised units is QSR, which accounted for 72% of franchised units in 2011, followed by baked goods (9%) and retail food (8%).



To estimate the growth rates in franchised food units, FRANdata created a sample of 488 brands for which consecutive data for 2004 through 2011 was available. In 2011, the sample operated 163,054 franchised locations, about 92% of the estimated total. From 2004 through 2011, the number of franchised food locations in this sample increased at a compound annual growth rate (CAGR) of 5%. Before the recession, from 2004 through 2006, franchised food units increased at a CAGR of 10%. CAGR in this segment slowed to 4% from 2007 through 2009, and to 3% from 2009 through 2011.



From 2004 through 2011, brands in retail food grew the fastest, at a CAGR of 9%, followed by baked goods and sit-down restaurants, both at 8%. Interestingly, frozen dessert picked up growth again in 2011 after stagnating during the recession more than the other industries. This was driven by frozen yogurt concepts such as Menchie's and Yogen Früz, which increased at a CAGR of 180% and 125%, respectively, from 2008 through 2011. In fact, when breaking up the 2004 through 2011 period into three chunks (2004–2006, 2007–2009, and 2009–2011), frozen dessert was the only food industry that managed a higher CAGR over the third phase than during the second phase.



Note: QSR is displayed as a secondary axis; the orange numbers to the right refer to QSR only.

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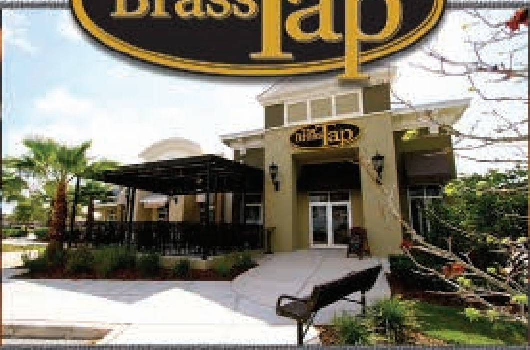

This is not an offer to sell a franchise. An offer can only be made by prospectus.

Franchise information contact: James Walker, Chief Development Officer
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Visit us at the Multi-Unit Franchising Conference, March 27-29, Caesars Palace, Las Vegas! Booth #405

Q: When did Sears start franchising?

SCOTT NICHOLS, Director, Franchise Business Development, Sears Hometown & Outlet Stores: We started franchising Sears Home Appliance Showrooms in April 2009 and the Sears Appliance & Hardware concept in April 2010. We had been licensing Sears Hometown dealer stores in rural markets since 1994 to replace our traditional catalog stores, and franchising was the next logical step. Before we started franchising, we introduced the Home Appliance Showrooms in early 2008 to prove the concept and develop the model. We sold our first franchise in September 2009 in Houston to Stephen Stark (see below).

Q: How is a Sears Appliance & Hardware Store different from a Sears Home Appliance Showroom?

NICHOLS: A Sears Home Appliance Showroom is located in a 4,500 to 5,000 s.f. retail space and exclusively sells brand-name appliances. We've tried to create a more upscale retailing environment with this format, appealing to upper-income shoppers. The Showrooms serve customers in modern shopping districts and lifestyle centers alongside other major retailers.

A Sears Appliance & Hardware Store is located in a 20,000+ s.f. retail space and sells a full line of typical hardware items, lawn and garden equipment (including mowers and tractor mowers), paint, our signature line of Craftsman tools and outdoor implements, and a full line of appliance brands similar to a Showroom. It is a hardware store format that also sells appliances, and is targeted primarily toward men and an older demographic.

Q: How many franchised units do you have?

NICHOLS: When I came on board in March 2011, Sears had 29 franchised locations out of 166 stores between the two formats. Today, of more than 180 stores, over 120 are now franchised. We transformed ourselves from being a company-operated model to a franchise format in a very short time. There are 95 Home Appliance Showrooms open in the U.S., 42 in development, and we continue to "seed" markets with company stores we will sell to franchisees.

Q: Describe your franchise model.

NICHOLS: It works on a "consignment" model: Sears owns the inventory and we pay the franchisee commissions based on sales of merchandise and protection agreements. There are no ongoing royalties involved, but there is an initial franchise fee of $25,000 payable at signing, plus the purchase price of the store. If it's a new store, we sell it for the development cost. Franchisees are responsible for the operating expenses, including rent (they sublet from us), payroll, utilities, and supplies. We can finance up to 80% of the startup cost.

Q: You've just unveiled a new franchise opportunity.

NICHOLS: That's our Sears Outlet Brand. It's not new to the Sears stable as we've operated the concept for the past 50 years. As part of our Oct. 2012 separation from Sears Holdings Corp., Sears Outlet stores joined the group of retail venues operated by Sears Hometown & Outlet Stores, Inc. (NASDAQ:SHOS). It's our "ding and dent" vehicle, offering a wide array of items, such as appliances, tools, power lawn and garden, apparel and other items you would see in a Sears or Kmart store. These stores range in size from 15,000 to 50,000 s.f.

Q: Several multi-unit food franchisees have signed on. What motivated them?

NICHOLS: They were mainly looking to diversify their ownership portfolio, either for geographic or category/venue reasons. A second reason, nearly as important, is the brand power of the Sears, Kenmore, Craftsman, and DieHard names. Brand-name recognition is very appealing to these multi-unit investors and operators. Third, when they buy an existing store, the customer base and cash flow are in place, and generally 95% of the managers and employees remain employed at the store, and know and understand the local market.

Stephen Stark is the longest-running Sears franchisee, beginning his Sears relationship in 1996 with a licensed Hometown Store. Today he operates 11 Home Appliance Showrooms, 1 Appliance & Hardware Store, and is now the first franchisee for Sears Outlet Stores, having taken over three Outlet Stores in the Greater Houston market. Here are a few of his thoughts on why he loves being a Sears franchisee:

"The greatest thing for me, when I started at 24, is I didn't have to buy the inventory. The investment was not as great as if you had a restaurant. For me that was always an appealing deal."

"Sears is willing to finance a big portion of the initial investment, so you don't have to go to a bank."

"With no inventory and Sears financing, you can start with a couple of stores without a significant up-front investment."

"The new group of multi-unit franchisees brings a lot to the table. They have a marketing background and have owned other franchises and businesses in the past, which helps all of us as a voice to Sears."

MEGA 99

Mega-Stars

Six movers and shakers who shoot for the sky

Franchising is big. And so are some of its franchisees. Just take a look at our "Mega 99" list (page 54) and you'll see what we mean! We've ranked the heavyweights by size, brands, number of units, and locations. These franchisees definitely know how to Go Big!

Franchising at this level is not for everyone. It takes a certain set of skills, drive, and initiative to build and operate these large organizations. The risks and rewards to the ever-growing multi-unit franchisee hinge on savvy decision-making, dedicated managers, hard-working employees, and loyal customers. Few can do it; even fewer can do it well.

And beyond the numbers are the human stories of passion, creativity, and sheer will and determination it takes to succeed at this level. Year after year we continue to find multi-unit franchisees with compelling stories to tell about their journeys to where they are today, stories filled with dramatic twists and turns.

This year we have chosen six successful multi-unit operators who exhibit the best of franchising, entrepreneurship, and commitment to their goals. It's revealing to hear their candid reflections on their successes and failures, goals and objectives, plans for the future, and their thoughts about work, family, and life. But perhaps it's their insights into people—from their employees to their customers to the communities they serve—that makes these franchisees notable.

We get it started in this issue by "reconnecting" with three franchisees we've previously profiled:

• **Tony Lutfi** has tripled the number of franchise units he operates since last we visited with him three years ago. The MarLu Investment Group CEO and president now has 43 Arby's, 46 Church's Chicken, 21 Jack in the Box, 5 Little Caesars, 5 Sizzlers, and has diversified beyond food with 8 Sears Appliance Showrooms and 6 Sears Hardware & Appliance stores, with more likely ahead.

• **Glenn Mueller** is a consummate innovator, and continues to be a beacon for the Domino's Pizza brand. The 57-year-old CEO (chief excellence officer) is Domino's largest franchisee, with 135 locations and an annual payroll topping $25 million. And he's brought several of his family members into the organization.

• **Kelly Saxton** is the founder and executive chairman of The Saxton Group, which operates 50 McAlister's Deli and 4 Pinkberry locations. He's been in the food service business for 30 years, and he previously owned more than 50 Mazzio's Pizzas. Like many successful franchisees, he loves to see his employees succeed and believes that's what leads to the ultimate success of the organization.

We also spoke with three more successful multi-unit operators:

• **David Grimaud** grew up in the car repair business in his father's Midas shop in Alexandria, La. His passion for electronics led to a degree in electrical engineering, but after starting a career in Dallas he soon realized he liked "being the boss." Today he is president of Grimaud Enterprises, which oversees 93 Precision Tune Auto Care locations from Utah to South Carolina.

• **Tom McDonald** spent 20 years traveling the globe as an oil refinery process design engineer. In 1986, during a cross-country trip with his family, a friend in Las Vegas asked him to be a partner in a Burger King and the rest is history. Today the 66-year-old has 35 Burger Kings, 8 Panera Breads, 18 T-Mobile Premium Retail outlets, and 3 Fazoli's.

• **Don Copus** grew up in a family of eight in a 900-square-foot home where he learned to work hard, appreciate others, and never give up. Today the Indianapolis native operates 25 Hungry Howie's in Michigan, Indiana, and Utah—and was named the 2012 Hungry Howie's Franchisee of the Year.

Regardless of their background, experience, and training, there's always a fascinating real-life story behind every successful franchise operator. Whether you're a single-unit operator or have dozens of units across several brands, you're sure to find something interesting, educational, and entertaining in the stories of these successful six multi-unit operators. And maybe even a nugget or two to apply to your business or your personal life.

It's Mega 99 time!

BY HELEN BOND

Hungry (Howie's) for Success

Don Copus honored as Franchisee of the Year

At least six times a year, Don Copus gathers his Hungry Howie's employees for a corporate outing where you may find the Berkley, Mich.-based franchisee batting for one softball team, pitching for the other, or manning the grill. No matter how you slice it, Copus, named 2012 Hungry Howie's Franchisee of the Year, is an employees' employer.

"I want them to know that I am approachable," says Copus. "I want them to realize that I'm no different from them. I started out with less than most of them, but worked hard to get where I am today. I want them to know that I'm willing to mentor them."

NAME: Donald E. Copus

TITLE: Chief Financial Officer

COMPANY: Magna Services Group, Ltd.

NO. OF UNITS BY BRAND: 25 Hungry Howie's Pizza franchises

AGE: 56

FAMILY: Wife and four children, ages 20 to 25

YEARS IN FRANCHISING: 21

YEARS IN CURRENT POSITION: Started Magna Services Group, Ltd. in 1995 with another Hungry Howie's Pizza franchisee to oversee the accounting and administration of our then nine franchises.

A native of Indianapolis, Copus, who operates 25 Hungry Howie's in Michigan, Indiana, and Utah, grew up in a family of eight in a 900-square foot home, made cozier by parents who welcomed any neighborhood child in need of a meal or bed. Copus learned to problem-solve at an early age from his late father, who taught his son not to "cry over spilt milk" and, instead, focus on what you can do.

A native of Indianapolis, Copus operates 25 Hungry Howie's in Michigan, Indiana, and Utah.

"His family was his wealth," Copus says of his father, who died 31 years ago. "He always had a positive outlook on everything. We would say that if a strong wind would blow the roof off of our home, he would look up and say, 'It is sunny outside.'"

His "can do" attitude has helped Copus over the years both personally and professionally, whether it was starting his

PERSONAL

First job: Paper route, raking leaves, shoveling snow. I worked at various pizza shops during high school and college.

Formative influences/events: Grew up on the east side of Indianapolis, a family of eight living in a 900-square-foot home with one bath. Both of my parents spent part of their youth growing up in orphanages. My parents did not have much, but were very giving. Our home was always open to neighbor kids who needed a place to sleep or a meal. If we did something wrong, we would be subjected to my father's lectures, which were usually a lot of questions to help us understand what we did and how it affected the people around us. He would make us look at our actions from many different points of view. This helped me develop a good skill set for problem-solving.

Key accomplishments: Going to college (Indiana University), earning a degree in accounting and passing the CPA exam. Being married for 30 years and having four great children, two on their way to medical school and two in undergraduate schools. Most recently, I was named Hungry Howie's Franchisee of the Year.

Biggest mistake: I accepted a job as director of finance and accounting for a $500 million company. Morale was terrible. It took me several months for my staff to open up to me. Then one day my boss came into my office and said that I needed to earn respect and that I needed to fire three people. I told him that he would have to fire me. Ultimately, I did not fire three people and he did not fire me, but about a year later my job was eliminated. At the time, my wife was pregnant with our third child and Southeast Michigan was in a recession. I spent 10 months looking for a job with no luck. It was at this time that I decided to buy myself a job. I looked at many different types of franchises and settled on Hungry Howie's Pizza for several reasons. I worked at pizza shops all through high school and college. Hungry Howie's had their "Flavored Crust" niche. I liked their products and was a customer at the location about half a mile from my home (now I am an owner of that store). They were the only franchisor that had me take a psychological profile test to see if I would be successful before asking me for any money. I signed for my first store in 1990 and lost money the first year, and I opened two more stores the next year. So really this wasn't a mistake, but it sure felt like it for the first few years.

Decision I wish I could do over: Sorry, but I don't dwell on what could have been. Always looking forward. Can't do anything about the past.

Work week: 45 to 50 hours, usually, try to keep weekends open for family.

How do you spend a typical day? Up at 6:30 a.m. Eat breakfast (very important) and get to the office around 8 a.m. Review prior day's sales, labors, and key statistics. As an accountant, I use this information to help guide my decisions: must control food and labor costs to make money; evaluate the effectiveness of our advertising and marketing.

Favorite fun activities: Boating, camping, fishing, spending time with my family, and cooking.

Exercise/workout: At least a half-hour walk daily.

Favorite tech toys: My smartphone.

What are you reading? I am a sucker for spy novels. I just finished reading the sixth book in the Jason Bourne series.

Best advice you ever got: Work hard, but work smart. Don't dwell on things that you can't control. Don't look back, always look forward.

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

What's your passion in business? To enjoy what I am doing. To help guide and develop my employees to reach their potential and achieve their goals.

How do you balance life and work? Family is very important to me. I will always make time for family. But I will always put in the time I think is necessary to get my businesses on target to achieve the goals I have set.

Last vacation: 30-year wedding anniversary in Puerto Vallarta, Mexico.

Person I'd most like to have lunch with: My father, who passed away 31 years ago.

franchising business in the middle of a recession or finding a way to rebuild the family home destroyed by fire—under budget and to twice its original size—when insurance money would cover only half the cost.

An Indiana University graduate (and thus a huge Hoosiers fan) and certified public accountant, Copus has a nose for numbers that has enabled him to strategize and react quickly to economic and industry changes. He has served on Hungry Howie's Ad Council and as a representative of The American Pizza Community, a coalition of franchisors, franchisees, small operators, and suppliers who advocate for policies affecting the industry, including the successful reformation of menu labeling legislation. Over the past 21 years, his stores have

Copus has a nose for numbers that has enabled him to strategize and react quickly to economic changes.

MANAGEMENT

Business philosophy: Be a leader. Treat people with respect. A happy employee is a good employee. Empower your employees. Give back to your community. Volunteer your time and resources to make a difference.

Management method or style: Open-door policy. Work with your employees to mutually set goals and then give them the tools and help that is needed to reach these goals. Be positive.

Greatest challenge: Staying positive during bad economic times.

How do others describe you? Hard working, takes charge, affable, fair, approachable, knowledgeable, caring, giving. But I am sure I have my critics too.

One thing I'm looking to do better: Taking better care of my health.

How I give my team room to innovate and experiment: We ask for suggestions on how to make our customers' experience better, how to improve our marketing and image. We want them to come up with ideas on "How to Wow" our customers, to provide customer service beyond expectations.

How close are you to operations? I review results daily.

What are the two most important things you rely on from your franchisor? Brand development and overall great advertising, marketing, and social media strategies. As a member of the Hungry Howie's Ad Council, I am fortunate to contribute to these endeavors.

What I need from vendors: We are fortunate to have very few vendors. All of our food and paper products come from Hungry Howie's Distributing. They have done a tremendous job of controlling costs while reinforcing high standards from their suppliers.

Have you changed your marketing strategy in response to the economy? How? Yes. We've kept our budgets the same and, in some cases, we increased the amount we spend. We have shifted our spending away from blanket advertising toward more targeted advertising. This is more expensive, but the results are greatly improved.

How is social media affecting your business? Social media can be a double-edged sword. It needs constant review. It is a great marketing tool if used with great care and honesty. The quickness with which information travels is amazing.

How do you hire and fire? We try to hire based on personality. We like outgoing people who like to engage our customers. We can train anyone on how to make a pizza, but it is really difficult to change an employee's personality. I strongly believe that after adequate training, if a person is not up to our standards, we must let them go or it will eventually lower existing employee performance morale.

How do you train and retain? We train by explanation and physically showing them how to perform a function. Then, we have the trainee explain and show the trainer how to perform the function. We also explain why the function is necessary, and not that this is the way it is done. We also have training manuals and videos. We retain our employees by providing a great work environment and treating them with respect.

How do you deal with problem employees? We document all communications with employees, good or bad. With bad behavior, we explain the outcome if the behavior does not improve. If the outcome is termination, we let the employee know that they, in fact, terminated themselves because they knew what the outcome would be if the behavior continued.

Fastest way into my doghouse: Lie and steal.

earned numerous awards, particularly in sales achievement.

Still, says Copus, his recent Franchisee of the Year honor for best embracing Hungry Howie's brand concept and corporate philosophy of helping people was unexpected and puts him among a special group of franchisees that he has long known and respected.

"All of this group, I believe, if cut, will bleed pizza sauce—I should say Hungry Howie's pizza sauce," says Copus. "It is this group of franchisees that motivates other franchisees to do better. They are Hungry Howie's ambassadors."

Copus also believes the returns for reaching out to his employees and the communities his stores serve are abundant. For instance, when River Rouge, Mich., was slammed by tough economic times, Copus stuck with his restaurant, located near Detroit, and its community. His loyal diners, largely auto and steel workers, returned the favor. In 2011, that store boasted an annual sales increase of more than 70 percent, earning the unit the "Highest Percent of Sales Increase" award in the Hungry Howie's system. "Support your community and the community will support you," he says.

"I do want to make it clear that I would not be where I am today if it weren't for the dedication and commitment of my management team and employees. They are doing all the hard work. I'm just leading and delegating with some success."

Looking ahead, Copus has committed to adding six Hungry Howie's in Utah. He also operates two DJ's Hotdog Company locations, with plans to add a third Chicago-style hot dog eatery by the end of the first quarter.

"I do want to make it clear that I would not be where I am today if it weren't for the dedication and commitment of my management team and employees," says Copus. "They are doing all the hard work. I'm just leading and delegating with some success."

BOTTOM LINE

Annual revenue: My secret.

2013 goals: Always improve our PSI: Product, Service, Image.

Growth meter: How do you measure your growth? By increasing our customer counts.

Vision meter: Where do you want to be in 5 years? 10 years? I'm 56 and would like to see myself taking a back seat from the day-to-day routine, but still be active in the overall business strategies.

How is the economy affecting you, your employees, your customers? The last year and a half has been good, but the previous three to four years were hard. Customer counts were down, sales were way down, and costs (food, labor, gas, utilities, and insurance) were way up. Stores that used to make profits were losing money. I was fortunate to have many stores and was able to ride out the storm.

Are you experiencing economic growth or recovery in your market? Yes. The last year and a half has been very positive for customer counts and sales increases. Profits are still sluggish because of costs.

What did you change or do differently in this economy that you plan to continue doing? We looked at every line item in our profit-and-loss statements and found ways to decrease costs. We closed some stores that were losing too much money. We became lean and stronger.

Is capital getting easier to access? Why/why not? Capital is available, but it is extremely hard to get. Your debt load has to be low. Your global cash flows have to be very strong and you have to be extremely well-capitalized. If you have these things, then usually you don't need to borrow.

Where do you find capital for expansion? For a lot of small businesses, asset financing companies might be a good resource. They are usually taking on more risks and, therefore, are charging interest rates north of 10 percent, which is high when you consider prime at 3.25.

Have you used private equity, local banks, national banks, other institutions? Why/why not? I have used local banks, national banks, and asset financing companies. I have not used private equity because of the reduced control I would have.

What are you doing to take care of your employees? We have employee outings at least six times a year. During the summer, we have stores compete against each other in softball. This is very popular. I usually grill food at the event, and I will pitch one inning and bat one inning for each team. This gives me a chance to meet my employees outside of the work environment and to show them that I am no different from them. We also have in-store contests and contests between stores for prizes and awards. We are just wrapping up a six-month contest where the winning store manager and guest will earn an all-expense paid trip to Jamaica for a week.

How are you handling rising employee costs (payroll, healthcare, etc.)? This is a tough one. We are still trying to figure out the cost of the Affordable Health Care Act. This will be very costly and I don't know yet how we will cover these costs.

How do you reward/recognize top-performing employees? In addition to the above, we have an annual awards dinner.

What kind of exit strategy do you have in place? This is a work in process right now. I have a few ideas, but it is too early to discuss.

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MEGA 99

BY KERRY PIPES

Tuned for Growth

Former electrical engineer now oversees 93 Precision Tunes

David Grimaud grew up in the car repair business. His father, Joe, operated a Midas shop in Alexandria, La., where David spent many days working as a teenager. "It really taught me a lot about budgeting and business management," says the 52-year old today. Grimaud, however, had a passion for electronics that led him to earn a degree in electrical engineering from LSU and begin a career in Dallas in the mid-1980s.

Grimaud soon realized that he liked "being the boss" and that he wanted to operate a business of his own. In 1987, his father, who was overseeing 37 Precision Tune Auto Care franchises in South Carolina, welcomed his son into the family business with open arms and a few new responsibilities—like expanding the territory and growing the number of units.

Today, Grimaud is president of Precision Tune's largest area devel-

NAME: David Grimaud

TITLE: President

COMPANY: Grimaud Enterprises, Inc.

NO. OF UNITS BY BRAND: This is a loaded question because of the way we do things. Grimaud Enterprises has been an area developer (subfranchisor) of Precision Tune Auto Care since 1979. Today there are 93 units under the GEI umbrella. Grimaud family members and partners own/operate 51 of those franchises. Each of these franchises is owned by an individual S Corporation. They are lumped into groups around operating partnerships as follows: Mike Scott and his partners own/operate 22 franchises in Georgia, Florida, Alabama, and Texas; Mark Hall and his partners own/operate 12 franchises in South Carolina; I and my partners own/operate 12 franchises in Florida, Alabama, Mississippi, and Utah; Greg Grimaud and his partner own/operate 5 franchises in Oklahoma; Joe Grimaud and his partner own/operate one store in Georgia.

This philosophy goes back to Joe Grimaud, the founder of GEI. He was one of the first area subfranchisors and franchisees of Precision Tune. He had been a franchisee of Midas, but preferred being an area developer so he could grow the business. In that role, he would bring partners on board who would be the operating franchisee back to GEI. This philosophy has been carried forward by me.

AGE: 52

FAMILY: Maureen (wife), Marilyn (daughter, 26, married to Kaleb), Geoff (son, 22, married to Natalie); no grandchildren—yet!

YEARS IN FRANCHISING: 25

YEARS IN CURRENT POSITION: 21

“My biggest accomplishment would be the 28-year marriage (and still going) to my wife and business partner, Maureen. Actually, I would say that is more Maureen’s accomplishment, as I can be a bear at times.”

PERSONAL

First job: In 1985 I took an electrical engineering degree from Louisiana State University and became an associate product engineer for United Technologies Mostek in Carrollton, Texas. I was a product engineer in the manufacturing of semiconductors.

Formative influences/events: Mainly, the philosophies of three different books have influenced me: *The Bible, How to Win Friends and Influence People* by Dale Carnegie, and *The Seven Habits of Highly Effective People* by Stephen Covey.

Key accomplishments: My biggest accomplishment would be the 28-year marriage (and still going) to my wife and business partner, Maureen. Actually, I would say that is more Maureen’s accomplishment, as I can be a bear at times.

Biggest mistake: Growing too rapidly in the ’90s. In 1991, my father, Joe Grimaud, was called by the board of directors of Precision Tune to save it from financial ruin. He promoted me to president of GEI at the old age of 31. I was very ambitious in those days, with all the answers. I grew our operations broadly and rapidly, not realizing how thin I was spreading us. My father served the franchisor for four years and got it healthy, but after he left, Precision Tune Auto Care got into worse shape under a different CEO. Between problems that developed within our operations and the question as to whether or not Precision Tune would survive, we decided to close seven of our stores and focus on our core. This resulted in an enormous loss in 2000. Fortunately, we were strong enough to survive it. Had I been with any other company, the board of directors probably would have fired me. I told my father that my college education was expensive, but this would be the best education he ever paid for me.

Smartest mistake: Our daughter, Marilyn. Let’s just say she was a wonderful surprise. One of the happiest days of my life when she was born.

Decision I wish I could do over: There are many, but related to the “biggest mistake” fiasco above, I would say I wish I hadn’t pushed us into Central Pennsylvania in 1994. We’re no longer there.

Work week: As needed.

How do you spend a typical day? I manage my day by doing what is urgent and important first, and then what is important if there is time. In doing this, on any given day I may be found on the phone with key associates, on the computer (as I am now), in a meeting or on my way to one, or visiting Precision Tune Auto Care stores. Because the territory is so large, Maureen and I travel constantly. The miracles of technology have allowed me to bring my office with me, which may be at one of our homes, in a hotel, or at a coffee shop with Internet access. (I was so excited when Starbucks finally offered free Internet a few years ago.)

Favorite fun activities: Traveling with Maureen, downhill skiing, speaking French, playing jazz on the piano or bluegrass music on the banjo, playing chess (I’m president of the South Carolina Chess Association).

Exercise/workout: Three hours a week at the gym, spent between weights, cardio, and stretching. Note that I was inspired to do this by Stephen Covey’s *The Seven Habits Of Highly Effective People,* which states that you need to be balanced in all dimensions and areas of life: physical, mental, emotional, and spiritual.

Favorite tech toys: My iPhone. Also my MacBook Pro. I am a longtime Apple fanatic. I purchased the original Macintosh computer (128K of RAM) in 1984 after reading an article in *Byte* magazine. It cost about $2,400 along with a printer, and that was in ’80s dollars. That was about 10 percent of my salary, and I took out a loan from the credit union. I am amazed at how much better the computers are today, and for the same amount of money in today’s dollars you get a much better Mac and you carry it around in your briefcase. This is the result of American innovation and entrepreneurship.

What are you reading? This is how I exercise the “mental dimension” of the *Seven Habits.* I read constantly, both fiction and nonfiction. My goal this year (2012) is to read 80 books, though I’ve only read 61 so far, so I’m a bit behind. I am concurrently reading. Fiction: *Catching Fire* by Susan Collins, the second book in *The Hunger Games* trilogy. I don’t consider this serious fiction, and am mainly reading it so I can discuss it with others who have read it; *Don Juan* by Molière in his original French; and *The Secret Lives of People in Love* by Simon Van Booy (this I would consider serious fiction). Nonfiction: *Confronting Reality: Doing What Matters To Get Things Right* by Larry Bossidy and Ram Charan, who co-authored *Execution: The Discipline of Getting Things Done,* which I recommend all business managers and executives read; and *The Speed of Trust: The One Thing That Changes Everything* by Stephen M.R. Covey.

Do you have a favorite quote? Mark 12:28–31, *The Bible,* New International Version: “One of the teachers of the law came and heard them debating. Noticing that Jesus had given them a good answer, he asked him, ‘Of all the commandments, which is the most important?’ ‘The most important one,’ answered Jesus, ‘is this: ‘Hear, O Israel: The Lord our God, the Lord is one. Love the Lord your God with all your heart and with all your soul and with all your mind and with all your strength.’ The second is this: ‘Love your neighbor as yourself.’ There is no commandment greater than these.”

Best advice you ever got: I watched an interview on TV one morning of Paul Newman and Joanne Woodward. The moderator asked why their marriage

Management method: "Hands-off, advisory style. Give people a job and let them do it. Doesn't always work, however, and then I adopt the "boa constrictor" method. Slither in, slowly coil around the situation, and tighten the coils."

had been so successful. Woodward replied that her husband had a great sense of humor. Maureen appreciates that about me, too, and it has helped keep our relationship fun.

What gets you out of bed in the morning? Responsibility.

What's your passion in business? There is nothing I enjoy more than seeing people succeed and rewarded for their endeavors and that I played a role in it.

How do you balance life and work? I force myself to back off from the business. I don't want to sound like the proverbial broken record, but I follow the principles of Covey's *Seven Habits.* Manage your life by working on what is important in the four dimensions: Physical—work out at least three hours every week; Emotional—spend quality time with my wife, family, friends, and key associates; Mental—read often, play chess, play music; Spiritual—pray/meditate and attend church regularly. Give back to the community.

All this is easier said than done. Work is a priority, but I realized back when I turned 40 (see biggest mistake above) that a life chasing money and prestige would result in a hollow eulogy at my funeral one day. Quite simply, what is it I wanted said at my eulogy? That David knew how to squeeze a penny and make a buck? No. I want people to say that I made a positive impact on them and everything I was involved in. I have essentially made that my mission statement.

Last vacation: We took the week off around Labor Day weekend and spent it with our daughter Marilyn and son-in-law Kaleb visiting Bryce Canyon and Zion National Park in Utah.

Person I'd most like to have lunch with: My wife.

MANAGEMENT

Business philosophy: Grow profitably.

Management method or style: Hands-off, advisory style. Give people a job and let them do it. Doesn't always work, however, and then I adopt the "boa constrictor" method. Slither in, slowly coil around the situation, and tighten the coils.

Greatest challenge: Leading our associates within evolving markets and an uncertain economy.

How do others describe you? Good question. I'm not sure I would want to be a "fly on the wall" when they're doing it.

One thing I'm looking to do better: Turn around problem stores more effectively.

How I give my team room to innovate and experiment: Everyone has responsibility.

How close are you to operations? Fairly close.

What are the two most important things you rely on from your franchisor? 1) communication (sales figures, what's working, best practices, market trends, advertising strategy, etc.); 2) training, both operations and technical.

What I need from vendors: Honesty, consistency, competitive pricing.

Have you changed your marketing strategy in response to the economy? How? Our business tends to be anti-recessionary (people keep their cars longer and repair/maintain them during these times), so if anything we have been looking for opportunities to grow locations while real estate prices have dropped from their peaks.

How is social media affecting your business? Unclear. My feeling is that social media is just another communication avenue similar to word of mouth, and that like word of mouth, perhaps it's more credible to the various, online communities. If that's the case, it would be more powerful than mass advertising in the long run, either boosting or busting your business depending on your product and/or service. Its initial impact could be small in the short run.

How do you hire and fire? I hire based on experience, attitude, and references. I fire based on lack of honesty, incompetence, or consistent failure to perform.

How do you train and retain? We train through on-the-job training, training offered by the franchisor, and our own homespun training classes. We retain by establishing relationships with our employees and offering incentives that reward them for performance.

How do you deal with problem employees? First, try to understand them, why they are a problem and whether or not they're capable to work through it. If they do not turn around within a reasonable period of time (and that time varies depending on the job function and position), then they must go.

Fastest way into my doghouse: Whine and complain.

oper, Grimaud Enterprises Inc. (GEI), which oversees 93 stores in 11 states, from Utah to Texas to South Carolina, and splits the royalties with the franchisor. In a unique business approach, the Grimaud family and their partners also operate 51 of the stores, each an individual franchise.

"We have a development schedule, and this model allows us the versatility of opening units ourselves or partnering with others to open and operate them," he says. Always on the lookout for the smartest deals, Grimaud says sometimes that means building a new unit from the ground up or taking over an existing or closed location and turning it into a Precision Tune winner.

Grimaud's 74-year-old father—one of the very first Precision Tune franchisees back in the 1970s—still serves as chairman of GEI, and his brother Greg is involved as an operator. Grimaud describes his wife Maureen as his "executive assistant and advisor," who plays a vital role in the company and "has an influence in everything I do." Together, they are constantly on the road overseeing the family empire. In fact, he says, about this profile, "My wife should really fill out her own questionnaire, but in the interest of time, I'm answering this from my perspective only."

Grimaud jokes that he runs his office from his Honda Odyssey… with a little help from his iPhone and MacBook Pro laptop. He maintains a rigorous schedule, but says it's important to keep at it. "My philosophy is to grow profitably," he says, "because if you're not growing, you're dying." MUF

"Communicate with your employees. Share as much about the state of the business as we can. Understand each other. And pay based upon loyalty, experience, and performance. Offer health insurance, but share some of the costs with them."

BOTTOM LINE

Annual revenue: As high as possible.

2013 goals: Yes, we have them.

Growth meter: How do you measure your growth? Sales, customer count, and unit count.

Vision meter: Where do you want to be in 5 years? 10 years? Again, we have goals. Forgive me for not being more specific, but I'm not ready to share this information outside of our franchise.

How is the economy affecting you, your employees, your customers? In a positive way, in that during a recession people tend to keep their cars and maintain and repair them so they'll last longer. Negatively, however, prices have not come down in the oil industry. In fact, they're at record highs, raising our cost of goods on oil changes. Conversely, the economy has prevented us from raising prices as customers have less money to spend. This has also made it difficult to raise wages.

Are you experiencing economic growth or recovery in your market? On average we're a little positive, with a single-digit percentage increase over 2011.

What did you change or do differently in this economy that you plan to continue doing? Look for bargains in real estate locations and better employees who might have been displaced for economic reasons.

How do you forecast for your business in this economy? Steady as she goes. We're not making any large capital improvements, we're being cautious.

Is capital getting easier to access? Why/why not? Based upon what I've seen, it depends upon the market. Some cities are faring better in this economy than others. The banking industry has seen enormous changes as many have failed. This could make it harder or easier to access, depending on what is going on locally as banks fight to survive.

Where do you find capital for expansion? Mainly through banks. A small amount through leasing companies.

Have you used private equity, local banks, national banks, other institutions? Why/why not? A combination of owner investment and local or regional banks. In some cases with real estate, some owner financing. Whatever works.

What are you doing to take care of your employees? Communicate with them. Share as much about the state of the business as we can. Understand each other. And pay based upon loyalty, experience, and performance. Offer health insurance, but share some of the costs with them.

How are you handling rising employee costs (payroll, healthcare, etc.)? That's difficult to answer. It's evolving. You have to monitor it constantly and modify it as best makes sense.

How do you reward/recognize top-performing employees? We make them an example to others. Recognize them in meetings. Compensate them through performance raises and commissions where applicable. In special cases, we offer ownership.

What kind of exit strategy do you have in place? If you grow the business profitably, the exit will eventually take care of itself.

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BY KERRY PIPES

Growth Overdrive

Tony Lutfi exceeds his own goals in just three years

In 2009 we profiled Tony Lutfi and asked him our routine question about where he'd like to be in five years. At the time he had 52 units and told us he would like to be at 100. Goal achieved… and then some! Today his MarLu Investment Group operates 134 franchise units including Arby's, Church's Chicken, Jack in the Box, Little Caesars, Sizzler, Sears Appliance Showrooms, and Sears Hardware & Appliance.

"We accomplished that goal in three years," he says today, "in part because we keep the same focus on culture that has kept us in business and away from trouble." Lutfi's culture promotes teamwork and cross-functionality with a sense of ownership. His managers treat the business as if they own it

PERSONAL

First job: Graveyard employee with Jack in the Box. Never thought that this job would lead me to where I am today. I am so grateful for that opportunity.

Formative influences/events: Being mentored by Bill Brusslan who just passed away after a battle with cancer. Becoming the chairman of supply chain and the franchisee association for Church's Chicken at a time that was critical taught me a great deal about the franchisors and what drives many of the decisions they make.

Key accomplishments: My children and family life and living the American Dream.

Biggest mistake: Tried to create a new concept on my own.

Smartest mistake: Purchasing our Las Vegas stores on October 22, 2001, one month after 9/11. The Las Vegas market suffered for two years before returning to normal, but patience and perseverance proved out in the long run.

Decision I wish I could do over: There have been many decisions that, knowing what I know now, I would do differently, but life does not have room for regrets. I spend little time wishing and more time planning.

Work week: What I do is not work, it is fun. I love people and love to accomplish new things. I think of it as a hobby more than I do as work. Work is something that you have to do. I love and choose what I do.

How do you spend a typical day? Many hours on the phone and on the laptop. I try to visit the businesses often, but that is harder to do as we've become a much larger company and I have to attend to the administrative duties.

Favorite fun activities: Time with my family in our home. We have a large extended family and often enjoy a gathering for some occasion or another.

Exercise/workout: None, but my doctor keeps telling me that I should.

Favorite tech toys: I never thought that I would say this: the iPad.

What are you reading? I read all publications dedicated to the restaurant business and an occasional article or book that gets me motivated and excited about life and the opportunities that lie ahead.

Do you have a favorite quote? Yes, I use it with our managers: "Run it like you own it!"

Best advice you ever got: From my friend and mentor: "Go be an entrepreneur, you have what it takes. Anyone can be an employee, but not everyone has what it takes to be an entrepreneur."

What gets you out of bed in the morning? My cell phone alarm at 6:06 a.m. It is a mind game that I play: I try to wake up before the alarm

NAME: Tony Lutfi

TITLE: CEO/President

COMPANY: MarLu Investment Group

NO. OF UNITS BY BRAND: 43 Arby's, 46 Church's Chicken, 21 Jack in the Box, 5 Little Caesars, 5 Sizzler, 8 Sears Appliance Showrooms, 6 Sears Hardware & Appliance

AGE: 52

FAMILY: Married 28 years, 3 children: Metri 27, director of operations with Jack in the Box; Stephen, 25, civil engineer with plans to join the family business; Ramsey, 20, Fresno State accounting student, also with plans to join the business.

YEARS IN FRANCHISING: 21

YEARS IN CURRENT POSITION: 15

goes off to avoid waking my wife Anna. She does not like waking up early.

What's your passion in business? People and helping others reach their dreams. Our business is about people. The money is nice, but the people are nicer, especially when we can make a difference in their lives.

How do you balance life and work? That is a hard one for sure. I do not make an attempt to balance it, I do what I can when I can. I know when my wife Anna is serious about me attending a personal event. I listen and attend without putting up a fight. I really leave the balancing act to her. She seems to do it pretty well.

Last vacation: Barcelona, Spain. Next one either to the Middle East or China.

Person I'd most like to have lunch with: My wife. We love to go to San Francisco and eat a shawerma or falafel sandwich at one of the delis.

and, he says, that has been the driving factor behind their cost controls and the real engine for their growth. "No organization can survive without great unit managers, especially in a multi-unit, multi-brand, multi-state setting."

Lutfi likes to promote from within and realizes that he must be committed to his teams' personal and professional development. "Our managers are our greatest assets. Our management turnover is among the lowest in our segment, and it is mostly due to the culture that we operate within. Our biggest challenge as we get larger and more spread out is how to maintain this culture of a family atmosphere and continue the collaboration that

MANAGEMENT

Business philosophy: Focus on the pillars of the business. For us it is customers, employees, the brands we own, and the profits. When we make decisions about the business, we must address each of the pillars almost equally and never sacrifice one for the other.

Management method or style: Tell the truth, treat people with respect, and ask for their help in a genuine manner. They always respond with respect, will always work hard, and always appreciate the truth no matter how hard it may be.

Greatest challenge: Saying no to a deal when it does not feel right. We are often approached to become franchisees or to acquire more units, but we cannot do everything. Staying the course and not be influenced by opportunities is a constant challenge for me.

How do others describe you? Honest and always willing to help.

One thing I'm looking to do better: Handle an email or a piece of paper only once to eliminate the time-wasters.

How I give my team room to innovate and experiment: We allow our key people to have real autonomy in making decisions, and when making mistakes we ask only that they learn from it. We encourage people to run the business as if they own it.

How close are you to operations? I have always been real close to operations, but lately I have been pulled away. My goal for 2013 is to return to the units and work as many positions as I can so I know what our teams have to deal with.

What are the two most important things you rely on from your franchisor? Marketing information and material. It is especially hard to create things from scratch since we operate many brands and in various states. We need the franchisor to be active in creating product and marketing programs that we can trust and use.

What I need from vendors: To be honest, care for our interest, and care for our business as partners.

Have you changed your marketing strategy in response to the economy? How? We focused our marketing efforts to promote value and increase frequency.

How is social media affecting your business? Depending on the brand, some are actively working to promote by using social media while others are still behind the curve. We believe that social media is here to stay and those who participate early and often will lead the way.

How do you hire and fire? Mainly by word of mouth. When we have a great employee, we ask if they know others who may be looking. Most of our managers are promoted from within.

How do you train and retain? Again depending on the brand, we follow the training programs provided by the franchisor.

How do you deal with problem employees? We eliminate them after giving them a chance to improve.

Fastest way into my doghouse: If you lie and then lie again to cover the first lie.

we've enjoyed for so many years."

A lot has happened for Lutfi in the past three years. In 2010, he acquired 21 Jack in the Box units in Northern California that are now operated by his oldest son, 27-year-old Metri Lutfi. All units have been totally re-imaged since the acquisition and new signage is planned for this year.

In 2011, he acquired five Sizzler restaurants in Northern California and signed a development agreement to open five additional Sizzlers after he completes remodeling four of the five units (one was already complete before acquisition). Before 2011 had ended, he acquired seven Sears Hardware & Appliance stores in Houston and St. Louis and seven Sears Appliance Showrooms in Dallas and St. Louis.

This past November, he bought 42 company-owned Arby's locations in Seattle and Portland, Ore. As part of the sale, he agreed to redesign 17 of the stores and will open five new Arby's over the next several years. Before the purchase, Lutfi owned one franchised Arby's unit, but before 2001 had owned 28, which he sold off during the past 10 years to pursue other brands.

So in a little more than three years, his company's annual revenue has nearly quadrupled from $40 million to $150 million, he's gone from 900 to 2,800 employees, and he's operating 7 brands in 7 states. Who knows what he'll do in another three years! MUF

BOTTOM LINE

Annual revenue: $150 million

2013 goals: Increase sales by 3.2 percent.

Growth meter: Sales and traffic increases.

Vision meter: Where do you want to be in 5 years? 10 years? We plan to be debt-free with at least $200 million in revenue and operate only the businesses that are able to generate positive cash flow.

How is the economy affecting you, your employees, your customers? The cost of goods continues to increase with little ability to pass it on to the consumer. The margins have shrunk and we have little room for experimentation.

Are you experiencing economic growth or recovery in your market? It depends on the brand and region. The best thing about being diversified is the ability to have balance when one is down another is up.

What did you change or do differently in this economy that you plan to continue doing? Manage cost with vigilance, eliminate waste, and focus on guest satisfaction. We thought that we did all these things pretty well before, but it is different when your margins are shrinking, and you quickly learn to manage and ask your employees to step it up. They often do.

How do you forecast for your business in this economy? We still forecast the same way we did before. We ask our managers to provide us with feedback and we work together with them and the market leaders to understand the surroundings. We build in price increases and adjust to traffic patterns.

Is capital getting easier to access? Why/why not? We really have never had any difficulty with access to capital. We've reduced risk by strategy and have avoided bad or expensive deals. We try to own 20 percent of the real estate where we do business and use that to leverage for capital.

Where do you find capital for expansion? Local banks for the small stuff and GE Capital for the larger deals.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We've never used private equity because we like to control the management and direction of our company. It is great for some companies, but most likely not so good for us. We enjoy the relationships that we've built over the years with the local banks and GE Capital and hope that we have been just as good to them as they have been for us.

What are you doing to take care of your employees? Sadly, the government has gotten into our business and has begun to create mandates that force us to do things that our employees may or may not need. We always work hard to ensure that our employees are happy and provide for them as we continue to grow. We will continue to do right by them, but pray to keep the government and regulations out of the business of business so we can do what is right.

How are you handling rising employee costs (payroll, healthcare, etc.)? We cannot pass it on to the consumer. It is really by cutting costs elsewhere and reducing labor hours.

How do you reward/recognize top-performing employees? We have monthly incentives that our managers and market leaders administer. We also promote from within and work hard on improving the conditions under which they operate.

What kind of exit strategy do you have in place? Our family is a family business. My nephew Nader and my children are already in the business and have been in it for many years. We try to build for the future, not just for the moment. I hope that the second generation will be much smarter than I was and build this thing to 500 units, domestic as well as international.

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BY HELEN BOND

Serving Up Good Value

Tom McDonald engineers a life in franchising

When Burger King set out to revamp its menu, it made sense that Tom McDonald would have some input. McDonald, a Burger King franchisee since 1986, had long expressed concern—largely to no avail—about the fast food giant's need to keep up with the times. When global investment firm 3G Capital acquired the home of the Whopper in 2010, new management was ready to listen.

McDonald was among a select group of executives, franchisees, and suppliers assembled to evaluate every facet of Burger King's fare, which ultimately led to the rollout of a slew of new products in 2012 as part of a multi-faceted strategy to reimage the chain.

"I have always been an advocate of giving good value," says McDonald, who operates 35 restaurants, and recently completed a six-year stint on the national Burger King Marketing Advisory Council. "The problem was that Burger King didn't have a high value perception. The new management has done a good job and is working hard to improve the value."

So what is a refinery process design engineer who spent 20 years globe-trotting the world with Exxon Research and Engineering, doing in Las Vegas touting the merits of adding crispy chicken strips, snack wraps, smoothies, and specialty coffee to his fast food menu?

As it's turned out, the qualities that made the highly organized Midwesterner successful at Exxon, such as his ability to think logically and prioritize (among others), would serve him well when oil industry changes prompted him to seek a career path that would allow him to be his own boss.

NAME: Thomas (Tom) M. McDonald

TITLE: Franchisee/Owner

COMPANY: Glencoe Management, Inc.

NO. OF UNITS BY BRAND: 35 Burger Kings, 18 T-Mobile Premium Retail outlets, 8 Panera Breads, and 3 Fazoli's

AGE: 66

FAMILY: Married with three children and six grandchildren

YEARS IN FRANCHISING: 26

YEARS IN CURRENT POSITION: 26

In July 1986, McDonald piled his family into an Audi station wagon for a cross-country adventure to Las Vegas—just as the building boom there was beginning. A high school buddy needed an operating partner to expand Burger King into Sin City, and the timing was perfect. Smart enough to know he was more suited to be a developer than an operator, McDonald's first hire was restaurant manager Tom Pike, who remains with the company today as director of operations.

"Never in my wildest dreams did I ever think that I would live in Las Vegas or be a Burger King franchisee," says McDonald, who holds a master's degree in chemical engineering from Stanford University.

These days, his Las Vegas-based Glencoe Management company boasts a diversified portfolio that also includes 8 Panera Bread restaurants in Northern Orange County and 3 Fazoli's locations. Most recently, he added T-Mobile Premium Retail dealership outlets (not franchised), including an 11-store acquisition from a Southern California operator in November.

When T-Mobile first approached McDonald about diversifying into telecommunications, he was unsure about the proposition—until he soon discovered that when it comes to phones, "Everyone loves to upgrade." The retail stores, run by his son and son-in-law, have brought a new element to the company business, with a lower cost of entry and shorter-term leases.

Today, "You have to be more nimble, quicker on your feet," says McDonald, who is conservative when it comes to borrowing money and leveraging his business, and flexible in operating plans. This is just the latest revelation for McDonald, who learned early on (when the Jack in the Box E. coli outbreak changed Americans' attitude about fast food) that he "shouldn't have all my eggs in one basket."

At 66, McDonald is an adventurous, family man who loves to hunt, hike, golf, and scuba dive. Eventually he will turn over more of the day-to-day responsibilities to family members.

What hasn't changed through the years is his loyalty to those who "do what they say they are going to do." McDonald grew up in a farming community in Illinois where, he says, your handshake is your word, and he still lives by that today. "Everybody who works for me knows that if you say you are going to do something, you have to do everything you can to do it," he says. "And if you can't do it, you have to tell the person you made a commitment to, 'I can't do this and here is why.'"

At 66, McDonald is an adventurous, family man who loves to hunt, hike, golf, and scuba dive. Eventually, he says, he will work less and turn over more of the day-to-day responsibilities to family members. But don't look for him to slow down any time soon.

Looking ahead, he plans to continue to grow his portfolio as part of an "If you are not growing, you are shrinking" operating strategy that must provide value (and, of course, be logical) to work.

"The future is hard to predict right now. I hope America continues to be a good place for entrepreneurs," he says. "I think we have established that we have the ability to grow from a base. Nice, steady growth in these current tough economic times is the wisest philosophy." MUF

PERSONAL

First job: Refinery process design engineer for Exxon Research and Engineering Co.

Key accomplishments: Master's degree in chemical engineering from Stanford University; building Glencoe Management up from scratch starting in 1986, and bringing my children into the family business.

Biggest mistake: Investing in a landscape contracting company in 2006—just before the start of the recession.

Decision I wish I could do over: Investing in the landscape company.

Work week: Five days a week, 8 hours a day in the office.

How do you spend a typical day? Review previous day's restaurant sales and operations, answer emails, visit restaurants over lunch, telephone conference with partners, and work on marketing plans.

Favorite fun activities: Golf, scuba diving, and getting together with family.

Exercise/workout: Aerobic exercise first thing in the morning five days a week, weight training three days a week.

Favorite tech toys: T-Mobile Samsung III smartphone, Samsung Galaxy 10.1 tablet.

What are you reading? *History* by David McCullough and Stephen Ambrose, historical novels by Ken Follett, and I'm currently reading *Killing Kennedy* by Bill O'Reilly.

Do you have a favorite quote? "Do what you say you're going to do," the motto of Glencoe Management.

Best advice you ever got: Don't respond to an email when you are angry, and never put anything in an email that you don't want broadcast to the world.

What gets you out of bed in the morning? The challenge of running a successful business in today's recessionary, anti-business environment.

What's your passion in business? Running a business with integrity and honesty, providing employment to hundreds of people, and still making a profit.

How do you balance life and work? Work hard, prioritize so the most important things get done, but enjoy life along the way. Life is a journey, not a destination.

Last vacation: Touring Germany, Austria, and the Czech Republic by car this past September.

Person I'd most like to have lunch with: Charles Krauthammer.

"We treat our people like people."

MANAGEMENT

Business philosophy: Do what you say you are going to do, minimize debt, don't over-leverage.

Management method or style: Treat your people with respect and recognize they have problems and life issues as well. Our other motto for Glencoe is, "We treat our people like people."

Greatest challenge: Treating my employees fairly while still making a profit. The current anti-business environment makes it very difficult to make a profit in the restaurant business today.

How do others describe you? Hard-working, sometimes impatient, but always tries to be fair and do the right thing.

One thing I'm looking to do better: Not over-schedule my time.

How I give my team room to innovate and experiment: I encourage them to make their own decisions and then tell me why they made the decision they did. I tell people it's okay to make mistakes.

How close are you to operations? Not that close. My time is best spent managing the businesses, rather than working in operations.

What are the two most important things you rely on from your franchisor? National marketing and new product development.

What I need from vendors: Consistent quality and on-time delivery.

Have you changed your marketing strategy in response to the economy? How? We always need to have a value proposition, and we need to make sure the public knows what it is. We investment spend so we can fund local marketing initiatives.

How is social media affecting your business? We are now advertising on Internet search engines like Internet Explorer and on mobile apps for smartphones.

How do you hire and fire? District managers hire and fire at the restaurant level unless circumstances call for immediate dismissal, like theft or fighting.

How do you train and retain? We have frequent training sessions in our conference room at our office. We also have a very detailed pre-employment orientation at our office that clearly spells out company policy and the fact that we use E-Verify. A thorough orientation is the best way to improve retention.

How do you deal with problem employees? First we counsel them, then we write them up, then suspension, and ultimately termination.

Fastest way into my doghouse: *Don't* do what you say you are going to do!

BOTTOM LINE

Annual revenue: Burger King, $40 million; T-Mobile Premium Retail, $6.8 million; Panera Bread, $18 million; Fazoli's, $2.2 million.

2013 goals: Open one new Burger King, remodel two more, and grow sales by 5 percent minimum; open two new Paneras and grow sales by 7.5 percent; open two new T-Mobile stores, remodel two existing stores, and grow sales by 5 percent.

Growth meter: How do you measure your growth? Total sales versus a year ago and comparable sales versus a year ago. We also use the same criteria for ticket counts.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years: at 40 Burger Kings, 13 Paneras, and 20 T-Mobile stores. In 10 years: still involved in the businesses, but about 75 percent retired.

How is the economy affecting you, your employees, your customers? Sales are down and net income even more. We have had very few raises over the past three years, but thankfully, we have also avoided any layoffs related to the economy.

Are you experiencing economic growth or recovery in your market? Just in the past two months we have had positive sales at Burger King. Panera continues to grow in sales and tickets, year after year. T-Mobile also has had consistent positive sales over the past two years.

What did you change or do differently in this economy that you plan to continue doing? Tighter control on overhead costs.

How do you forecast for your business in this economy? We forecast positive sales through traffic-driving value initiatives.

Is capital getting easier to access? Why/why not? Capital has been easier to access because banks have money to lend and we have relatively low debt and good cash flow.

Where do you find capital for expansion? From both national banks (Bank of America) and local banks in Las Vegas and Southern California.

What are you doing to take care of your employees? We have had no layoffs and no cut in salaries, although raises have been few and far between. We also "treat our people like people" so we have very good retention.

How are you handling rising employee costs (payroll, healthcare, etc.)? We are holding the line on hiring new employees and asking for more productivity from our existing employees. Ultimately, we will have to raise prices to maintain our bottom line as costs continue to go up.

How do you reward/recognize top-performing employees? We give top performers raises. We also recognize their contribution with titles (training manager, safety coordinator, etc.). However, our primary way to reward good performance is with a bonus plan that is, in effect, a profit-sharing plan.

What kind of exit strategy do you have in place? My family works in the Burger King and T-Mobile businesses, so eventually I will work less and they will take on more of the day-to-day responsibilities and decision-making. I'm not involved in Panera operations and we have an operating partner in North Orange County where the restaurants are located, so no need for an exit strategy there.

BY KERRY PIPES

He's #1!

Passion fuels Domino's largest, most innovative franchisee

To Glenn Mueller, franchising at its core is a partnership. And as the largest single franchisee in the Domino's Pizza system at 135 units, he's a great partner to have.

When we last visited with Mueller in late 2010, he told us how he and his team had not only weathered the massive Hurricane Katrina—which affected many of his Gulf Coast Domino's stores—but how he had reopened stores within days to take care of his team members and the people in the communities they served.

Beyond his compassion and relentless drive, it's difficult to write about Mueller without acknowledging his unending pursuit of innovation. For example, those insulated bags that keep your pizza steaming hot while it makes its way to your house? Courtesy of Mueller and his team. And those illuminated portable car-top signs? You

NAME: Glenn Mueller

TITLE: Chief Excellence Officer

COMPANY: RPM Pizza, LLC

NO. OF UNITS BY BRAND: 135

AGE: 57

FAMILY: Married 35 years, 5 children

YEARS IN FRANCHISING: 31

YEARS IN CURRENT POSITION: 31 in the Domino's business; going on 10 as majority owner.

guessed it. And we haven't even mentioned his role in developing Domino's own drive-thru and carry-out-only store concepts.

"This is a 'fast-food' business," he says. "You've got to stay ahead, to innovate, to improve, and continually invest in the brand." These are all things he's passionate about—and all things Domino's CEO Patrick Doyle is passionate about too, he adds. They make a great team. "Competitors never sleep," says Mueller, "and we have to continue to adapt, improve, and meet customer demand."

Mueller's RPM Pizza organization remains a family business. He and his brother Richard Jr. founded

> **"This is a 'fast-food' business. You've got to stay ahead, to innovate, to improve, and continually invest in the brand. Competitors never sleep."**

the operation in 1981. Today ownership consists of three others: Richard Jr.'s son Richard III, COO (20 years in the business); Glenn's son Glenn Jr., marketing vice president (3 years in the business); and Linda Mueller (Richard Jr.'s wife, who also is an owner and outside investor). Glenn Jr. has taken over marketing as Richard Jr. retired in 2012 year after 45 years in Domino's. Also, Glenn's daughter Stephanie works in accounting (6 years in the business).

As you might expect, Mueller has been busy innovating in the two years since we last spoke. He says his organization is using more technology to maximize dollars and efficiencies and

PERSONAL

First job: Mowing lawns and shoveling snow for $1.55 per hour. I was scared to ask a customer for a 30-cent raise, but I did and he gave it to me.

Formative influences/events: Domino's set a goal to double franchisee profitability by improving product, service, and image. They have given us a lot of resources and tools over the past 3 years.

Key accomplishments: We improved our speed of service to a record delivery time and improved our product ratings to #1 in taste, including the hand-tossed fresh pan pizza.

Biggest mistake: Not working in stores early on. I came in as CFO and controller.

Smartest mistake: Challenging the CEO of Domino's to a pizza-making contest—loser paying $10,000 to the Domino's Pizza charity, the Partners Foundation. The contest was graded on quality and speed with three judges and in front of 2,500 Domino's team members. It took 6 months of aggressive training, much stress, and an ultimate win.

Work week: Review weekly results on Monday, team meetings Tuesday, then conference calls, team meetings, and store tours the rest of the week. At night do emails, call franchisees, and read up on industry and competitive updates. Travel to other areas/meetings one week per month and distant stores about once per month.

How do you spend a typical day? Run in the morning, work at office or stores, dinner at home, spend time with family and grandchild, walk, emails.

Favorite fun activities: Playing flag football, Ultimate Night Frisbee, waterskiing, snow skiing.

Exercise/workout: Run-walk daily. Currently in a 1 million-step challenge in 6 weeks.

Favorite tech toys: My iPhone, a John Deere tractor, and a G-scale garden train layout (Castle Farms Garden Railroad, the largest in Michigan).

What are you reading? *Home Team* by Sean Payton (coach of the 2010 Super Bowl champs), and *Hire the American Dream* by Dave Melton and Tim McIntyre.

Do you have a favorite quote? Altitude is determined by attitude. And from football: if you get hit hard, get back up fast and don't let the competition know you are hurt. There is no "I" in TEAM, Together Each Accomplishes More. A chain is only as strong as its weakest link. You either get better or worse, you never stay the same. Hire tough, manage easy.

Best advice you ever got: My mom told me to always think positive and my dad told me to always be honest. My brother, Richard Mueller Jr., told me to practice the Golden Rule and treat others as you want to be treated. Always put your agreements in writing.

What gets you out of bed in the morning? I can't sleep too long or I'll miss an opportunity to accomplish more.

What's your passion in business? To be #1.

How do you balance life and work? Coached my 5-year-old grandson's flag football team to an undefeated season. Remember Tom Monaghan's 5 priorities: Spiritual, Physical, Mental, Family, Financial.

Last Vacation: Charlevoix, Mich.

Person I'd like most to have lunch with: My wife.

"Be the best, always strive to be #1. Outwork and out-hustle your competitors—never be out-hustled. Manage by fact, be customer-focused, be systems- and process-oriented, and constantly improve."

MANAGEMENT

Business philosophy: Be the best, always strive to be #1. Outwork and out-hustle your competitors—never be out-hustled. Manage by fact, be customer-focused, be systems- and process-oriented, and constantly improve. Help others and pay it forward. Expect each store to be run with excellence, leaving no store behind. Benchmark against the best and strive for world-class performance. Be the first to open and the last to close versus Mother Nature, fires, and power outages. Strive to be the best place to work, offering a drug-free, safe workplace with the best training and career opportunities, while paying the best with opportunities to franchise. Refer to each worker as a Team Member and not the "e" word. Value diversity and each member on the team. Promote a team member feedback system along with an open-door philosophy. Find ways to have fun and reward people for a great job.

Management method or style: Transparency and inclusive. Try to include team members and hire great people to get results.

Greatest challenge: Hiring the best people and executing at high levels.

How do others describe you? Competitive and persistent, never sleeps, and strives to be #1 in every team, committee, group, or business venture. Hence our company purpose at RPM Pizza: to build a 5-star, world-class, great company!

One thing I'm looking to do better: Improving our culture.

How I get my team to innovate and experiment: Challenge them to network with the best.

How close are you to operations? We have a manager board of advisors, a driver board of advisors, and a pizza college where all managers receive their training, so I get frequent group contact. However, it is a natural conflict to be in the office versus the stores/operations. A balance is needed with my job. We schedule unannounced store visits and announced visits. For 7 years we have toured every store around year-end to shake everyone's hand, say thank you, and then have a "friendly" competition to see who can make the fastest pizza. Anyone who beats me wins $20, and I have had to go to ATMs quite frequently. Thank goodness for new team members.

What are the two most important things you rely on from your franchisor? A profitable business model. Transparency and integrity in all business dealings.

What I need from vendors: Stay on the leading edge; the best product and service.

Have you changed your marketing strategy in response to the economy? How? Patrick Doyle, CEO since 2009, has reinvented Domino's Pizza. He developed a whole new pizza with the new and inspired hand-tossed pizza that was rated #1 versus Papa John's and Pizza Hut—and went on national TV and got record sales increases. Then he rolled out successive new products including Artisan Pizzas, Gluten Free Crust pizza, Stuffed Cheesy Bread, a new Handmade Pan Pizza that is the best in the industry—with fresh, never-frozen dough. Our franchise actually tested a pan pizza years ago but we could just not get it right. Now the CEO and talented leadership have put together the best-tasting pan pizza ever. It is awesome and our customers have given us so much positive feedback. Patrick Doyle has also led the system to record low delivery times, and is now improving our image. We have a new logo, new stores that are more welcoming, and a "pizza theater" setup that shows off how our pizzas are made. It's terrific.

We have one of the first pizza theater stores at our Gulfport, Miss., location. We also have the new logo on our pole sign—the first one in the world. We have been a test basis for some of the new products, including artisan, and have helped with the new store design. Our customers like to see how their product is made and now, in the great tradition of pizza kitchens, they can!

Domino's and its innovative IS team have helped make the Domino's POS system the best in the industry. Pizza Tracker tracks orders for customers online or on their phone, updating the status of their order from making, baking, and delivering the product. Online ordering now accounts for more than 25 percent of our business—helped by new promotions, including 50 percent off menu price during Global Domino's Day and other special times.

Domino's owns the $5.99 price point for medium pizzas (2 large with 2 toppings at $5.99 each) and $7.99 for large pizzas—two promotions that have been very popular. The next step is friendly service, and RPM Pizza has contracted with John DiJulius, consultant and author of *Secret Service.* He will help make us, as he says, "price irrelevant."

How is social media affecting your business? By helping raise sales and building customer loyalty by more than 30 percent online.

How do you hire and fire? Look at character, work ethic, integrity, and being a team player. If I can, I like to see how people play sports or do activities, as you can tell a person's attitude and drive.

How do you train and retain? At RPM Pizza, you can achieve your dreams and hit your career and personal goals over time. Look at the bigger picture and long term. Domino's is a great franchise and the best pizza company in the world! We treat our management like owners: our GMs earn up to 30 percent of the store's profits, and we try to give equity-type compensation. We have the best and most training programs in our industry. Pizza College symbolizes this commitment.

How do you deal with problem employees? We have team members, not employees. We operate by the Golden Rule. We have written policies in place, a team member feedback system, and an open-door policy for our team members. We encourage our team members to put their concerns in writing.

Fastest way into my doghouse: (Forget to tell my wife my schedule.) For my team to not be trustworthy or stop being a brand ambassador.

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to increase driver security. "There is GPS and mapping technology now that allows us to provide a much safer operating environment for our drivers," he says.

Mueller also has been one of the first Domino's franchisees to launch the new "pizza theater store" concept at his Gulfport, Miss., location. He says it's a friendly, inviting atmosphere where customers can see their pizzas being made with fresh ingredients through a large glass window. "We also have the new wordless Domino's logo on our pole sign—the first one in the world," he says. "We have been a test basis for some of the new products, including artisan pizza, and have helped with the new store design."

For Mueller, innovation—and growth—are all in a day's work.

BOTTOM LINE

Annual revenue: Payroll is over $25 million.

2013 goals: Sales and order counts up 5 percent.

Growth meter: How do you measure your growth? Same-store sales, order counts and total sales, total number of stores, number of people franchised.

Vision meter: Where do you want to be in 5 years? 10 years? Five years: top franchisee in Domino's Pizza. 15 years: retired.

How is the economy affecting you, your employees, your customers? Obamacare is of great concern, but we are excited about it! Now all our team members who are full-time will have affordable healthcare. I am not quite sure how we will afford it as a company, but I am glad that every full-time worker can get access to healthcare.

Are you experiencing economic growth or recovery in your market? Slow recovery, but pizza is somewhat recession-proof in that it is a great value and many people trade down from the full service or quick service prices to our lower priced/high value products and services.

What did you change or do differently during the recession that you plan to continue doing? We will increase our training and recruiting efforts to find the friendliest people and safest drivers. We have had the lowest turnover in 30 years, but we still have to increase our hiring standards.

How do you forecast for your business in this economy? We are pleased that as budgets get tight and both parents have to work, we can make people's lives easier at a low cost.

Is capital getting easier to access? Why/why not? Easier if you have long-term cash flow and performance—plus we are tied to Domino's. It helps to be with a major brand.

Where do you find capital for expansion? GE Capital or commercial banks such as Chase.

Have you used private equity, local banks, national banks, other institutions? Why/why not? GE Capital did a $9 million facility for us and has been great to work with.

What are you doing to take care of your employees? Increased training opportunities and franchise opportunities. We have helped three people franchise in the past 3 years.

How do you reward/recognize top-performing employees? Cruise incentives for all our operating partners/unit managers and district managers.

What kind of exit strategy do you have in place? I do not plan to retire for 10 to 15 years. I have top operations people in place and several family members/owners also in place. In the past year my brother retired from Domino's after 45 years. My son came into the business 3 years ago and is head of our marketing and finance. My nephew has been with us for 20 years now and helps in our operations and real estate operations.

BY HELEN BOND

Beyond the Brand

30 years of building a successful franchisee company

As founder and executive chairman of The Saxton Group in Dallas, Kelly Saxton has taken a family approach to building a business that has opened and operated more than 100 restaurants in his 30-year career. Whether talking about his two sons, Adam and Matthew, who are vice presidents at the company, his 1,000-plus employees, or the customers and markets the franchise and development company serves, Saxton understands the value and power of connections.

The largest franchisee of McAlister's Deli, The Saxton Group operates 50 of the fast casual restaurants in Texas, Oklahoma, and Kansas, and four Pinkberry frozen dessert locations in the Dallas area. Recognized by Southern Methodist University's Cox School of Business as one of the top Dallas companies for dynamic growth, the company has earned McAlister's Deli Franchisee of the Year and Developer of the Year awards numerous times.

Saxton, who flipped burgers as a kid in his grandfather's diner in South Hutchinson, Kan., hails from generations who have worked in the restaurant and food business. Still, the fresh-faced college graduate wasn't thinking much about his roots when seizing an opportunity from his father and a family friend in 1982 to become a Mazzio's Pizza franchisee in suburban Jackson, Miss.

"Honestly, at that time, I'm 22, married and have a child. I wanted a job," says Saxton. Soon, he was hooked by the people and the multifaceted nature of a business that requires marketing, financial, human resources, and retail know-how to succeed. "We are in a business where you are measuring impact—moment-to-moment, customer-to-customer," says Saxton. "I thrived off the energy and still do today."

By 1999, Saxton owned more than 50 Mazzio's locations in Mississippi, Arkansas, and Texas and was on the hunt for a growth-oriented concept that wasn't as commodity-driven as a slice of pizza. He was drawn to McAlister's varied

NAME: Kelly Saxton

TITLE: Executive Chairman and Founder

COMPANY: The Saxton Group

NO. OF UNITS BY BRAND: 50 McAlister's Deli (plus 3 under construction), 4 Pinkberry Frozen Yogurt

AGE: 52

FAMILY: Wife Vicky, sons Adam and Matt

YEARS IN FRANCHISING: 30

YEARS IN CURRENT POSITION: 30

menu, which includes soups, salads, and spuds, the concept's appeal to women, a strong daytime presence, and a focus on service. He sold his pizza operation in 2004 to concentrate on developing the McAlister's brand, particularly in Texas, the company's best-performing state. In 2009, Saxton added the upscale Pinkberry Frozen Yogurt to his portfolio, the first Pinkberry franchise awarded outside of California and New York.

Five years ago, when we profiled The Saxton Group (then called Saxton Pierce Restaurant Corp.), it already was the largest McAlister's franchisee, with 30 units spread across Texas, Oklahoma, Mississippi, and Kansas. Late last year, Saxton's organization got even bigger with an acquisition that added 20 McAlister's in Oklahoma, Kansas, and Missouri. That acquisition—of Bothwell Saxton Restaurants, a company in which The Saxton Group had been a partner with Craig Bothwell—brought the Saxton Group's number of McAlister units to 50, with sales expected to reach $100 million in 2013. Saxton said he plans to add five or more McAlister's locations a year.

Along the way, sons Adam and Matt joined the company, working their way up through the ranks to their current positions as vice presidents. Both grew up in the restaurant industry, starting as teenagers. Adam, a graduate of SMU, focuses his analytical skills on long-term strategic real estate plans and brand positioning. Younger brother Matt, who earned his degree in hospitality management from the University of North Texas, works closely with vendors, architects, and contractors involved in new restaurant construction.

So how do the Saxtons, who often dine, work out, and vacation as a family, work and play so well together?

"We can disagree and at the end of the day we are friends who have a healthy respect for each other," the elder Saxton says. "It is most important to us—my wife and me—that we have the family dynamic first and business is

PERSONAL

First job: I flipped burgers at my grandfather's diner in South Hutchinson, Kansas. I guess that means that I've been in the restaurant business my whole life! I come from several generations who have worked either in restaurants or in the food industry.

Key accomplishments: I really have focused on creating a strong identity for The Saxton Group that goes beyond the brands we operate, and I feel like that's been a key accomplishment. Many franchisees associate themselves very closely with the brands they operate. but we want our people to think of themselves as part of The Saxton Group team first. Investing deeply in our own organization allows us to grow quicker, perform at a higher level, and create opportunities for our people.

Smartest mistake: I've never heard of a smart mistake. If I made mistakes along the way, I'm sure they weren't smart ones.

Decision I wish I could do over: With 20/20 hindsight I could have made a lot of decisions differently, but that's not what will take our business to the next level. I've never spent a lot of time on mistakes. I'm a wake up and do my very best that day kind of guy.

Work week: Whatever it takes! I've assembled an incredible team that have taken much of the day-to-day responsibility for the business out of my hands, but that doesn't mean I find myself working any less! I'm able to focus on areas where I believe I can have the biggest impact, like strategic growth, the occasional acquisition, and developing other leaders in our organization.

How do you spend a typical day? I'm an early riser and work on my iPad from my kitchen in the mornings. I make my own protein shake that I drink every morning! I usually arrive to the office around 9 a.m. and dive into reviewing sales results from the previous day. I have lunch with my management team every day, and some of our best ideas come out of those lunchtime discussions! I spend a lot of time on the phone discussing our business with the leaders of our franchise brands and business partners.

Favorite fun activities: I enjoy working out, dining out, collecting red wine, especially Pinot Noir, and spending time with my family.

Exercise/workout: I work out nearly every day at the Cooper Fitness Center in Dallas and do a variety of cardio and weights. I use a personal trainer there several times a week. I've also come to really enjoy Pilates, something my wife and I do together.

Favorite tech toys: Hands down, my iPad. I also really enjoy the Jambox speaker from Jawbone.

What are you reading? The iPad.

Do you have a favorite quote? I'm sure I'm not the first one to say this, but people around my office quote me as saying, "Slow don't pay!" That means it's the restaurant business. We're supposed to be busy, we want to be busy, we better be busy.

Best advice you ever got: Get started. Do something. Make it happen. Nothing is going to happen just because you want it to. Take steps, any steps, to get started.

What gets you out of bed in the morning? I enjoy my work, I enjoy my family, I enjoy our employees. I'm happy to report that I'm all-around happy, and that makes taking on each new day pretty easy.

What's your passion in business? Growth. I am most thrilled when I am growing our company, and that creates opportunity. I consider my position the Chief Executive of Creating Opportunity.

How do you balance life and work? My wife helps me do that, and without her, I probably wouldn't be able to.

Last vacation: Montecito, Calif.

Person I'd most like to have lunch with: Seriously, I draw so much knowledge and information from sitting down and having lunch with members of our team at The Saxton Group. Sure, there are plenty of people who could be interesting to have lunch with, but I'm lucky enough to have lunch nearly every day with a group of people I honestly find interesting and engaging.

MANAGEMENT

Business philosophy: You get what you expect, so set your expectations high. Stay focused.

Management method or style: I believe in empowering other people to do a great job. I've never been a micromanager. Set expectations high and then let your team go out and exceed those expectations.

Greatest challenge: Not just meeting, but exceeding our customer expectations every single time: 100 percent customer satisfaction in 54 restaurants in four states 365 days of the year.

How do others describe you? Intense, fair, hard-working, and honest.

One thing I'm looking to do better: I'm always looking for more patience. You can never have enough of that, and I hope to continue to evolve into a more patient person.

How I give my team room to innovate and experiment: I believe in independence. We're all driving to the same place, we all have the same goals. If your idea is better than mine, let's do your idea.

How close are you to operations? I hear feedback directly from our stores on a daily basis. In the restaurant business if you lose touch with your restaurants you probably won't be in the restaurant business any more.

What are the two most important things you rely on from your franchisor? Three D's: Development of the concept, Define where our brand stands, and Distribute it across our territories.

What I need from vendors: The same level of customer satisfaction that we strive to deliver to our customers. We aren't happy until we exceed the customers' expectations in our restaurant, so I hope our vendors aren't happy until they've exceeded our expectations. I need business partners, not just vendors, who are engaged in growing this business together.

Have you changed your marketing strategy in response to the economy? We've tried to be more specific and target our customers closely.

How is social media affecting your business? It's a huge benefit to have more communication with your customers and your employees. We see the social channels as another way to have dialogue with the people who make us successful: our customers and our people.

How do you train and retain? We retain people by giving them opportunity to grow. If I'm not creating upward advancement for the people in our organization then I'm not doing my job.

Fastest way into my doghouse: Make a commitment that you don't meet.

a by-product… and there is always their mother to keep us in line."

At 52, Saxton has no plans to go anywhere but up, though he did transition in late 2011 from president to executive chairman to focus on strategic planning and long-term strategy. Kirk Lanier, who was a general manager for McAlister's before joining Saxton in 1998 to help expand the brand, was named company president. The restructuring has allowed Saxton to step away from daily operational duties and focus his leadership and energy on the company's big picture future.

"We have a very successful management team in place and we will continue to grow," says Saxton. "This also allows the team to grow and have longevity from that standpoint. For me, I've had this position for 30 years. It's not like I just showed up."

No matter where the development road takes the company, Saxton believes in developing brands within markets they know and understand. For Saxton, the aim is to be a "people-centered" business that connects with its employees, rather than just a company that operates a brand.

"If you are going to be a franchise company—which we are, and we love being a franchise company—you don't want your company to be just about your brand, because if that brand goes away, potentially your company goes away," says Saxton. "I want to be involved with my company forever. From an organizational standpoint, through people, you are managing the brand, but they are working for the same company, The Saxton Group. This is where they hang their hats, and we want them to be positive about this brand." MUF

BOTTOM LINE

Annual revenue: $90 million in 2012.

2013 goals: In excess of $100 million in sales in 2013.

Growth meter: How do you measure your growth? By how successful my people are. If I see more and more people on our team having success I know we must be growing. If I see us hiring new people, opening new stores, and advancing careers I know we are growing and I know we are doing something right.

Vision meter: Where do you want to be in 5 years? 10 years? Five years: over $150 million in annual revenue. Ten years: personally happy and in a great place.

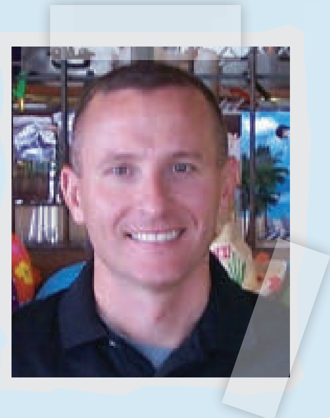
Are you experiencing economic growth or recovery in your market? Growth. We're doing business in great places.

What did you change or do differently in this economy that you plan to continue doing? What we didn't do is use the economy as an opportunity to do anything differently when it comes to our philosophy of taking care of our people.

Is capital getting easier to access? Why/why not? Capital is always available to successful companies. Whenever we've had success we've found the money to fuel our success. In periods where we were less successful money was difficult to find. That's probably always going to be true.

What kind of exit strategy do you have in place? I'm trying to run our company the very best it can be so it's ready when that opportunity presents itself.

DRIVING PROFITABILITY 2013



SEAN FALK
2013 Conference Chairman

Owner, WolFTeaM LLC
President, Nachogang LLC,
Marine

When I started in franchising more than 14 years ago, the "normal" at that time was to open a location, work it, and be successful. Today, there is a higher expectation–that you're going to come in and be a multi-unit owner right from the start whether you are an existing franchisee of another brand or a new franchisee. And with that, come some challenges.

Most franchise systems have franchisees who have already figured out how to operate the business model they have in place. Franchisors have operations manuals, site selection committees that help you find a good location, and marketing campaigns that help you be successful. The one thing they don't have is a process to teach and train you about multi-unit ownership. The Multi-Unit Franchising Conference fills this void.

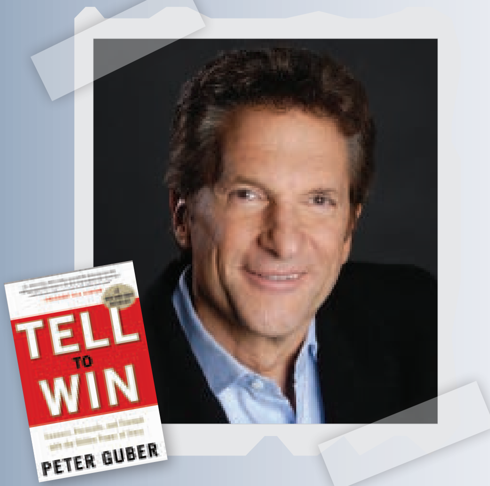
This conference is completely focused on multi-unit franchisees. That's why attending each year is so important to me. In today's competitive business environment, our margins continue to get squeezed from every direction. Wages continue to inflate, commodities continue to soar, and utility costs fluctuate wildly. The focus of the 2013 convention is "Driving Profitability". As a group, we recognize the challenges we are facing every day as franchise business owners. Together, we have the resources to develop strategies that will continue to drive profit to your bottom line!

The networking at this event is incredible. The peer-to-peer contact with other multi-unit franchisees is invaluable. You will receive so much–both resources and education–you can't possibly learn on your own. And the content the conference has to offer is premium; no other conference in the nation covers this type and range of content. The Advisory Board, composed of multi-unit franchisees, develops programming that will be valuable to multi-unit operators from all industries and sizes because we have all levels of franchisees here.

At the Multi-Unit Franchising Conference, there is the knowledge base for wherever you are in the spectrum of ownership. As a result, year-over-year attendance at the conference has been expanding, even during the deep recession we just came through.

I am really looking forward to seeing all of you at Caesars Palace in Las Vegas, March 27-29, so we can learn great things together.

KEYNOTE SPEAKERS



Peter Guber

#1 NYT Bestselling Author of *Tell To Win*
Legendary Sports Team Owner, and CEO,
Mandalay Entertainment

Peter Guber has produced or executive produced several box office hits that include *The Color Purple, Midnight Express, Batman, Flashdance* and *The Kids Are All Right.*

Guber is the Owner and Co-executive Chairman of the NBA franchise, the Golden State Warriors. He is also Co-owner of the Los Angeles Dodgers.

Guber is a noted author, with his most recent business #1 New York Times bestseller book, *Tell To Win - Connect, Persuade, and Triumph with the Hidden Power of Story.*

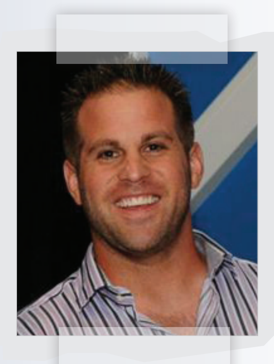
Mark Kelly

Commander of Space Shuttle
Endeavour's Final Mission, Author

Mark Kelly is an American astronaut, retired US Navy Captain, best selling-author, prostate cancer survivor, and an experienced naval aviator who flew combat missions during the Gulf War. The winner of many awards, including the Legion of Merit, two Defense Superior Service Medals and two Distinguished Flying Crosses, Kelly was selected as an astronaut in 1996. He flew his first of four missions in 2001 aboard Space Shuttle Endeavour, the same space shuttle that he commanded on its final flight in May 2011. He has also commanded Space Shuttle Discovery and is one of only two individuals who have visited the International Space Station on four different occasions.

FEATURED SPEAKERS

Russ Umphenour
CEO, FOCUS Brands
Closing Presentation –
Franchise Partner Profitability



Jon Dorenbos
NFL Long Snapper, NFL Pro Bowl 2009
Franchisee Luncheon –
Franchise Magic Presentation

David Akers
Six-time Pro Bowler, NFL Kicker
Franchising Cares Presentation

CONFERENCE SPEAKERS

Adams, Steve
CEO, U.S. Retail

Albert, Cary
President, Albert Restaurant Group LLC

Allen, Randy
CFO/Member Manager Morelock-Ross Group of Companies

Amato, Cathy
Franchisee

Balen, Alan
President, I.B Corporation

Ballas, Sam
President/CEO, East Coast Wings & Grill

Barr, David
Franchisee

Baxter, Steve
General Manager, Global Mid-Market Solutions, Satmetrix

Beshay, David
President, Beshay Foods Inc.

Branca Jr., Robert
President, JLC Donuts, Branded Realty Co., Batista Management Co.

Bruce, William
CEO, Abundant Brands LLC

Burrell, Dan
Area Developer, Jersey Mike's Subs

Chase, Bob
President, Money Mailer Response Marketing

Cunningham, Ryan
President, Javelin Solutions

Cutchall, Greg
CEO, Cutchall Management Co.

Dady, Michael
Founding Partner, Dady & Gardner P.A.

Davey, Don
Founder/Senior Portfolio Manager, Disciplined Equity Management

Donohoe, Mike
Franchisee

Dunn, Steve
Senior VP of Global Development, Denny's

Dwyer-Owens, Dina
CEO, The Dwyer Group

Falk, Sean
President, Wolfteam LLC, Nachogang LLC; 2013 Chair, Multi-Unit Franchising Conference

Fiorentino,Rocco
President/CEO Benetrends; Chair, First Multi-Unit Franchising Conference

Fisher, Lane
Partner, Fisher Zucker

Gilleland, John
Franchisee

Grace, Gary
President, GG Enterprise; 2009 Chair, Multi-Unit Franchising Conference

Grimaud, David
President/Franchisee Grimaud Enterprises Inc.

Grimaud, Maureen
Principal/Franchisee Grimaud Enterprises Inc.

Griparis, John
Managing Member, Paragon Management Group LLC

Hall, William G.
President, William G. Hall & Company

Hashim, Aziz
President/CEO, National Restaurant Development

Helton, Glen
Senior VP/Global Operations Burger King

Hotchkiss, John
Partner, L&M Restaurant Group

Hui, Ellen
Former CEO, EBR Investments

Jakes, Van
President, Jake 22 LLC

Jobe, Madison
Senior VP/COO, Pizza Inn Holdings Inc.

Johnson, Darrell
President /CEO, FRANdata

Johnson, Lyndon
President/CEO, Reciprocity Restaurant Group; 2010 Chair, Multi-Unit Franchising Conference

Jordan, Martha
Franchisee

Kenisell, Chet
CEO, Sugar on Top Corporation

Khan, Aslam
CEO, Falcon Holdings

Kleiman, Mel
Founder/President, Humetrics

Knobelock, Michael
President/Owner, SMSK Enterprises Inc.

Kolton, Jeffery
Principal, Franchise Market Ventures LLC

Koning, Giovana
CFO, Falcon Holdings

Kulp, Michael
President, KBP Foods

Kuryllo, Michael
Franchisee

Lacerte, Rene
CEO/Founder, Bill.com

Lafreeda, Dawn
CEO/President, Den-Tex Central Inc.

Leese, Ken
President & CEO, The Tax Authority Inc., The Video Game Developer Inc.

LeFever, Steve
Chairman, Profit Mastery

Lindsey, Pete
VP of Franchising, Sport Clips

Lucas, Seth
Franchisee

Lungren, Jeff
Director of Congressional & Public Affairs, U.S. Chamber of Commerce

Lutfi, Tony
CEO/President MarLu Investment Group

Mann, Jason
President FSSG/Mann's Diversified Industries

Metz, John
President, RREMC Restaurants; CEO, Hurricane AMT; Director, Meyer Metz Capital Partners; *2012 Chair, Multi-Unit Franchising Conference*

Millard, Ron
Partner, Redstone Capital Partners

Miller, Keith
Owner, Subway of Aubern and Grass Valley; *Chairman,* Coalition of Franchisee Associations

Mongeon, Roger
CEO, Turf Holdings Inc.

Mueller, Glenn
Founder, RPM Pizza

Novack, Stan
President, Novack Consulting; 2007 Chair, Multi-Unit Franchising Conference

Ostrowe, David
President, O&M Restaurant Group

Pendlord, JD
President/CEO, Sun Holdings LLC

Perales, Guillermo
Franchisee

Pye, Andy
Director of Operations, Augusta Burgers Exp.

Rinna, Mark
President, RRG Inc.

Robins, Gary
President, G&C Robins Co.

Robinson, Cheryl
Owner, Sapphire Ventures

Rodriguez, Al
Franchisee

Rucker, Clyde
Franchisee

Salle, Dennis
Franchisee

Selden, Bryan
Partner/General Partner, Lone Star Restaurants/ Dough Rollers

Simon, Grant
President, Simon Clips

Smith, David
CFO, AmRest USA

Smithgall III, Charles
Chairman/CEO SEI, Aaron's Inc.; 2011 Chairman, Multi-Unit Franchising Conference

Stark, Stephen
Franchisee

Sugarman, Lloyd
Franchisee

Swanson, Ruth
VP Marketing, Fantastic Sams Int.

Tanner, Greg
National Director of Franchise Development, Aaron's Inc.

Thomas, Greg
Franchisee

Tokatly, Marilyn
Franchisee

Torres, Ted
President, Caerus Hospitality Partners

Umphenour, Russ
CEO, Focus Brands

Warman, Ricky
Partner, Chalak-Miami

Wemple, Steve
President/COO, Sailorman Inc.

Werner, Eric
President/CEO, Texas Subs

Wilder, Roger
Franchisee

Yadav, Anil
President, JIB Management Inc.

Zuccarello, Dean
President, Cypress Group

**At press time*

AGENDA
AT A GLANCE

TUESDAY, March 26 | *Pre-Conference*

12:00PM TO 6:30PM	**GOLF TOURNAMENT**
7:30PM TO 9:30PM	**MULTI-UNIT FRANCHISEE COCKTAIL RECEPTION & WELCOME** *(Franchisees Only)*

WEDNESDAY, March 27 | *Main Conference*

7:30AM TO 7:30PM	**REGISTRATION DESK OPEN**
7:45AM TO 8:45AM	**CONTINENTAL BREAKFAST**
9:00AM TO 10:30AM	**OPENING GENERAL SESSION** **Welcome:** Therese Thilgen, *CEO* and *Co-Founder*, Franchise Update Media Group Sean Falk, *2013 Conference Chair* **Keynote:** Leading In Uncertain Times: What's Your Story? - Peter Guber, #1 NYT Bestselling Author of *Tell To Win*, Legendary Sports Team Owner, and CEO, Mandalay Entertainment
10:30AM TO 11:00AM	**COFFEE BREAK**
11:00AM TO 12:00PM	**GENERAL SESSION:** Healthcare Reform Exchange – Protecting Your Hard-Earned Profits
12:00PM TO 1:30PM	**FRANCHISEE ONLY LUNCHEON** – Conversations & Franchising Magic *(Franchisees Only)*
12:00PM TO 1:30PM	**FRANCHISOR FOCUSED LUNCHEON** – Building Successful Programs for Multi-Unit Growth – Lead Generation Best Practices *(Franchisors and Suppliers Welcome)*
1:45PM TO 3:00PM	**CONCURRENT BREAKOUT SESSIONS:** Mega Franchisee Summit: Lessons Burned and Lessons Learned *(Discussion)* Growing to 10 Units *(Case Studies)* Creating Infrastructure to Support 20-30 Units *(Discussion)*
3:15PM TO 4:30PM	**CONCURRENT BREAKOUT SESSIONS:** Silver Bullets for Selecting Additional Brands Building Customer Loyalty and Profits Show Me the Money: Franchise Finance Pitch Session Franchisee Exit Strategies & Succession Planning
4:30PM TO 8:00PM	**EXPO HALL OPEN**

THURSDAY, March 28 | *Main Conference*

8:30AM TO 7:00PM	**REGISTRATION DESK OPEN**

AGENDA
AT A GLANCE

THURSDAY, March 28 | *Main Conference*

8:30AM TO 9:15AM	**CONTINENTAL BREAKFAST**				
9:15AM TO 11:15AM	**GENERAL SESSION:** **Franchising Cares** **Industry Trends** - Darrell Johnson, President, FRANdata **Keynote:** Endeavour to Succeed - Captain Mark Kelly, Commander of Space Shuttle Endeavour's Final Mission Multi-Unit Franchisee 2013 MVP Awards				
11:30AM TO 12:10PM	**CONCURRENT BUSINESS SOLUTION ROUNDTABLES:**				
	Technologies that Drive Profitability	Customer Building and Retention	Accelerating the Process of New Store Openings	Human Resources	
12:15PM TO 2:00PM	**LUNCH IN EXHIBIT HALL**				
2:15PM TO 3:15PM	**GENERAL SESSION: Leadership Panel** - Driving Franchisee & System Profitability with Private Equity				
3:30PM TO 4:30PM	**CONCURRENT BREAKOUT SESSIONS:**				
	Financial Dynamics and Valuation Trends for the Franchise Industry	Driving Profitability through Cost Controls	Expensive Pitfalls to Avoid when Negotiating New Leases or Renegotiating Existing Ones	ROI Growth Strategies for Integrating Additional Brands	Franchisee Associations and Advisory Councils that Drive System Profitability
4:30PM TO 5:30PM	**CONCURRENT BUSINESS SOLUTION CASE STUDIES:**				
	Increasing Local Store Sales: (Delivering marketing and customer service on steroids)	Financing Franchisee Growth through Private Equity and Other Capital Sources	Profit Mastery: Focus on Unit Profitability and Performance	The 10 Commandments of Top Performing Managers	
5:30PM TO 8:30PM	**COCKTAIL RECEPTION IN EXPO HALL**				

FRIDAY, March 29 | *Main Conference*

9:00AM TO 11:00AM	**CLOSING SESSION:** **Great Brands + Great Franchise Partners = Franchise Partner Profitability** Russ Umphenour, *CEO,* Focus Brands

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*At Press Time

2013 Mega 99 Rankings

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

RANK	NAME	UNITS	BRANDS
1	NPC International	1,158	Pizza Hut
2	Target Corp.	1,147	KFC/Pizza Hut, Pizza Hut, Jamba Juice, Cold Stone Creamery
3	Heartland Automotive Service	530	Jiffy Lube
4	HMSHost Corp.	479	360 Gourmet Burritos, Gordon Biersch Brewery, Maui Tacos, Roy Rogers Family Restaurant, Ruby's Diner, Chili's/Chili's Grill & Bar/Chili's Too, Qdoba Mexican Grill, Dickey's Barbecue Pit, La Salsa, Wolfgang Puck Express, Subway, Pizza Hut, Popeyes Louisiana Kitchen, Chick-fil-A, Burger King, Einstein Bros. Bagels, Blue Coast Burrito, Sonny Bryan's Smokehouse, Bruegger's, Baja Fresh, Quiznos, Howard Johnson, La Quinta Inn, Great American Bagel, Villa Pizza, Famous Famiglia, Cinnabon, Moe's Southwest Grill, Häagen-Dazs, Pinkberry, Noble Roman Pizza, Dunn Bros Coffee, Great Steak & Potato Company, Johnny Rockets, Kelly's Cajun Grill, Nathan's Famous, Ranch1, Salsarita's, Sbarro, Tony Roma's Pizza, Yeung's Lotus Express, Blimpie
5	Harman Management Corp.	465	KFC/Taco Bell, KFC/Pizza Hut, LJS/KFC, Pizza Hut, KFC, A&W, KFC/A&W, LJS/A&W, Long John Silver's
6	Apple American Group LLC	440	Applebee's
7	Aramark	417	Camille's Sidewalk Cafe, Pizza Hut/Taco Bell, Pizza Fusion, Così, Chili's/Chili's Grill & Bar/Chili's Too, Subway, Seattle's Best Coffee, Chick-fil-A, Dunkin' Donuts, Pizza Hut, Popeyes Louisiana Kitchen, Denny's, Einstein Bros. Bagels, IHOP, Wendy's, A&W, Ben & Jerry's, Papa John's Pizza, Quiznos, Beef 'O' Brady's Family Sports Pub, Togo's, Jamba Juice, Raising Cane's Chicken Fingers, Tim Hortons, Moe's Southwest Grill, The Extreme Pita, Noble Roman Pizza, McAlister's Deli, Long John Silver's, Carl's Jr., Cold Stone Creamery, Nathan's Famous, Round Table Pizza, Sbarro, Mooyah Burgers & Fries, Blimpie
8	Army & Air Force Exchange Services (AAFES)	404	Godfather's Pizza, Subway, Popeyes Louisiana Kitchen, Pizza Hut, Einstein Bros. Bagels, Burger King, Church's Chicken, Arby's, Captain D's, A&W, Charley's Grilled Subs, Taco John's, Cinnabon, Blimpie
9	Sun Holdings LLC	398	Burger King, Popeyes Louisiana Kitchen, Arby's, CiCi's Pizza, Golden Corral, T-Mobile, Del Taco
10	Rottinghaus LLC	353	Subway
11	Sodexo Inc.	337	Pizza Hut/Taco Bell, Wow Cafe & Wingery, Godfather's Pizza, PJ's Coffee of New Orleans, Subway, Seattle's Best Coffee, Chick-fil-A, Denny's, Pizza Hut, Einstein Bros. Bagels, Burger King, Blue Coast Burrito, Baja Fresh, Auntie Anne's, A&W, Papa John's Pizza, Quiznos, Dairy Queen & Orange Julius co-brand, Chester's, Jamba Juice, Tim Hortons, Hot Stuff Food Systems, Moe's Southwest Grill, Carvel, McAlister's Deli, Carl's Jr., Nathan's Famous, Sbarro, Nrgize Lifestyle Cafe, Blimpie
12	Boddie-Noell Enterprises Inc.	306	Moe's Southwest Grill, Hardee's
13	Carrols Group	298	Burger King
14	Strategic Restaurants Acquisition Corp. LLC	294	Burger King, T.G.I. Friday's
15	ADF Companies	287	Pizza Hut/Taco Bell, KFC/Pizza Hut, Pizza Hut
16	Heartland Food Corp.	286	Burger King
17	Pilot Travel Centers LLC	281	Subway, Pizza Hut, Wendy's, Arby's, Hot Stuff Food Systems, Carvel, Chester's, Cinnabon
18	United States Beef Corp.	275	Arby's

RANK	NAME	UNITS	BRANDS
19	WilcoHess LLC	271	Godfather's Pizza, Subway, Dunkin' Donuts, Arby's, Wendy's
20	Mason-Harrison-Ratliff Enterprises	263	Sonic Drive-In
21	Richard Lawlor	236	Dunkin' Donuts
22	MUY Brands LLC	228	KFC/Taco Bell, LJS/KFC, Pizza Hut, Taco Bell, LJS/A&W, Long John Silver's
23	Southern California Pizza	222	Pizza Hut
24	Love's Travel Stops & Country Stores	219	Godfather's Pizza, Subway, Arby's, Chester's
25	MHR	208	Sonic Drive-In
26	Fugate Enterprises	207	Pizza Hut
27	JRN Inc.	207	KFC/Taco Bell, LJS/KFC, Pizza Hut, KFC
28	Convenience Retailers LLC	202	Circle K
29	K-MAC Enterprises Inc.	199	KFC/Taco Bell, Pizza Hut, Taco Bell
30	The Covelli Family Limited Partnership	197	Panera Bread
31	Tacala LLC	190	KFC/Taco Bell, LJS/Taco Bell, Taco Bell
32	Kmart Corp.	183	Little Caesars Pizza
33	Border Foods Inc.	180	LJS/Taco Bell, KFC/Taco Bell, KFC/Pizza Hut, Pizza Hut/Taco Bell, Pizza Hut, Taco Bell, KFC, Church's Chicken
34	The Pantry Inc.	177	Subway, Bojangles', Church's Chicken, Dairy Queen & Orange Julius co-brand, Dairy Queen Limited Brazier, DQ Grill & Chill/Dairy Queen Grill & Chill, Quiznos, Hot Stuff Food Systems, Chester's, Mr. Payroll
35	Zubair Kazi	177	KFC
36	Wing Financial Services LLC	171	Jackson Hewitt Tax Service
37	Bridgeman Foods/ERJ Dining	167	Chili's/Chili's Grill & Bar/Chili's Too, Wendy's
38	TA Operating LLC	163	Pizza Hut/Taco Bell, Subway, Popeyes Louisiana Kitchen, Pizza Hut, Burger King, Knights Inn, Quiznos, Rodeway Inn
39	Quality Dining Inc.	162	Chili's/Chili's Grill & Bar/Chili's Too, Burger King
40	BR Associates Inc./Sidal Inc.	160	Grandy's, Denny's, Wendy's, Rally's, Long John Silver's
41	Compass Group USA Inc.	160	Gordon Biersch Brewery, Jerry's Subs & Pizza, Subway, Dunkin' Donuts, Denny's, Pizza Hut, Chick-fil-A, Einstein Bros. Bagels, Burger King, Wendy's, Bojangles', Papa John's Pizza, Quiznos, Pinkberry, Jamba Juice, Häagen-Dazs, Tim Hortons, Moe's Southwest Grill, Noble Roman Pizza, Nathan's Famous, Sbarro, Manchu Wok, Au Bon Pain, Blimpie
42	Palo Alto Inc.	159	LJS/Taco Bell, KFC/Taco Bell, Pizza Hut/Taco Bell, Pizza Hut, Taco Bell, KFC
43	JIB Management Inc.	157	Jack in the Box
44	B & B Consultants Inc.	154	Sonic Drive-In
45	Davco Restaurants Inc.	152	Wendy's

2013 Mega Rankings, *continued*

RANK	NAME	UNITS	BRANDS
46	Cedar Enterprises	148	Wendy's, T.G.I. Friday's, Burger King
47	Amerada Hess Corp.	143	Godfather's Pizza
48	Sizzling Caesars LLC	142	Little Caesars Pizza
49	Sailormen Inc.	141	Popeyes Louisiana Kitchen
50	Boyett Petroleum	139	Pacific Pride Services
51	Restaurant Management Company of Wichita Inc.	137	Pizza Hut, KFC
52	RPM Pizza LLC	136	Domino's Pizza
53	MarLu Investment Group	134	Arby's, Church's Chicken, Jack in the Box, Little Caesars, Sizzler, Sears Appliance Showrooms, Sears Hardware & Appliance
54	Perkins & Marie Callendar's	132	Perkins Restaurant & Bakery
55	Charter Foods Inc.	130	KFC/Taco Bell, Pizza Hut/Taco Bell, Pizza Hut, Taco Bell, LJS/A&W, Long John Silver's
56	Valenti Management LLC	130	Chili's/Chili's Grill & Bar/Chili's Too, Wendy's
57	Tri Star Energy LLC	127	Pacific Pride Services
58	America's Pizza Co LLC	126	Pizza Hut
59	RLJ Lodging Trust	125	Fairfield Inn, Courtyard by Marriott, Doubletree Hotels/Doubletree Guest Suites, Embassy Suites Hotels, Hampton Inns, Hilton Garden Inn, Hilton Suites, Holiday Inn & Suites, Holiday Inn & Suites (Express), Hyatt Summerfield Suites, Renaissance Hotels & Resorts, Residence Inn by Marriott, Sleep Inn/Sleep Inn & Suites, Springhill Suites
60	Henley Enterprises Inc.	125	Valvoline Instant Oil Change
61	Jerry Miller	125	Pizza Hut
62	Apex Restaurant Management	122	LJS/KFC, KFC, LJS/A&W, Long John Silver's
63	Gary Jarrard	122	Sonic Drive-In
64	Wisconsin Hospitality Group LLC	121	Pizza Hut, Applebee's
65	Carlisle Corp.	119	Wendy's
66	JEM Restaurant Group Inc.	119	KFC/Taco Bell, Pizza Hut/Taco Bell, Pizza Hut, Taco Bell
67	Michael Kulp	117	KFC
68	Briad Restaurant Group LLC	113	Wendy's, T.G.I. Friday's
69	James Gressett	113	Pizza Hut
70	Extended Access	112	Pacific Pride Services
71	Wendy's of Rochester Inc.	111	Wendy's
72	Summit Restaurant Group LLC	109	Pizza Hut
73	D L Rogers Corp.	108	Sonic Drive-In
74	Pepper Dining Inc.	108	Chili's/Chili's Grill & Bar/Chili's Too

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2013 Mega Rankings, *continued*

RANK	NAME	UNITS	BRANDS
75	Hess Mart Inc.	107	Blimpie
76	Rage Inc.	107	Pizza Hut
77	Midas Muffler Inc.	104	Midas, Midas/Speedee co-brand
78	AmRest LLC	103	Applebee's
79	DiPasqua Enterprises	103	Subway
80	Kaizen Restaurants Inc.	103	Burger King, Denny's
81	Burgerbusters Inc.	101	KFC/Taco Bell, Pizza Hut/Taco Bell, Pizza Hut, Taco Bell
82	Daland Corp.	101	Pizza Hut
83	Falcon Holdings	100	Church's Chicken
84	Great Lakes Quick Lube LP	97	Valvoline Instant Oil Change
85	Paradigm Investment Group	95	Hardee's
86	Thomas and King Inc.	95	Carino's Italian Grill, Applebee's
87	The Jan Companies	94	Burger King
88	Cowabunga Inc.	93	Domino's Pizza
89	The Scrivanos Group	93	Dunkin' Donuts, Dunkin' Donuts/Baskin-Robbins combo
90	William B Graves	93	Domino's Pizza
91	MC LLC	92	Jiffy Lube
92	PSP Stores LLC	91	Pet Supplies Plus
93	BMP/Pennant Holdings LLC/Pennant Foods LLC	90	Wendy's
94	MJKL Enterprises Midwest LLC/ Levecke and Company LLC	89	Carl's Jr., Hardee's
95	CFL Pizza LLC	88	Pizza Hut
96	Floyd Bergen	88	Pizza Hut
97	George Smith	88	Ace Hardware
98	W2005/Fargo Hotels Realty LP	88	Fairfield Inn, Comfort/Comfort Inn & Suites/Comfort Suites, Residence Inn by Marriott
99	Capital Pizza Huts	86	Pizza Hut
	Apple Gold Inc.	86	Applebee's

Source: FRANdata

BY EDDY GOLDBERG

Know When to Fold 'Em!

Closing a unit can be much harder than opening one

Nobody likes to admit defeat, especially multi-unit franchisees. But when the overwhelming evidence shows a unit is bleeding red with no end in sight, it's time to surrender to reality and shut it down. But how do you know when that time has come? And once decided, how do you proceed unraveling your commitments to your franchisor, lenders, and suppliers?

In a multi-unit franchisee's portfolio, one bad apple *can* spoil the bunch by dragging down EBIDTA, draining time and money, and causing all kinds of legal and financial problems—not to mention harming the brand itself and driving customers away from its "good" units.

In a perfect world, the goal when closing a unit is to minimize the damage to all parties. But with a losing unit, someone usually ends up taking a haircut. (On the other hand, some operators, as well as private equity firms, thrive on being bottom-feeders, snapping up failing or struggling units at bargain basement prices.)

We asked people from all sides of the issue for their thoughts on how to stop the pain, pull the plug, bite the bullet, put the old dog to sleep. So if you have a dog of a unit chewing up your bottom line while the rest of your locations are thriving…

Where to begin

"Start with the process of 'Should I close the unit?' Take an objective assessment: Is there any reason I should keep the unit open?" says Dean Zuccarello, CEO of The Cypress Group. "Assuming you can navigate through the legal and lender issues, be sure as you're making the decision to close a unit that it makes sense to do so," he says. "Just because a unit is losing money doesn't mean you should close it. It might fill a strategic void in your market."


Dean Zuccarello

He cites a client operating a unit that doesn't make money. However, it's located in a college town, and keeping that unit open generates "a fair amount of goodwill that translates into the rest of their units," he says. "The unit economics may not work, but if you're getting other things out of that unit, like visibility or name recognition, it can make sense to keep it open," he says. However, he adds, if you've crossed the bridge of no return and the unit has none of those redeeming attributes, it makes sense to close it.

"First you have to assess how bad the situation is," says Aziz Hashim, who operates 50 units (Domino's, Popeyes, and Rally's) in Georgia, Florida, Arizona, and California. "Is it making money, breaking even, or losing money?" And if it is losing money, he says, your options are to close, liquidate, or give it back to the franchisor. It's not as easy as you might think." Who do you owe? Will the franchisor allow you to close it? Can you get out of a long-term lease? Are there other contractual obligations to consider? Will it affect your costs with suppliers?


Aziz Hashim

"Sit down with your franchisor, accountant, advisors, and first assess how bad in the hole you are," says Hashim. "Then you can move on to try to make a reasonable decision." If that decision is to shutter the unit, he says, your options are three: close, liquidate, or give it back to the franchisor. "You have to decide which of those options is best for the owner—and potentially, the loser in this situation."

"In order to grow, you have to get rid of the dogs," says Greg Thomas, a franchisee of Great Clips, Locos Grill & Pub, and Smoothie King in the Atlanta area. "But before closing a store, make sure you're doing it for the right reason. I've seen many stores that shut down simply because of low sales, only to find out the low sales were due to a thief working inside the store." Other reasons can include the location itself, a poor manager, or bad advertising. "You need to find out *why* the store is failing," he says.

He cites two contrasting examples from his own experience. The first was a store he thought had a perfect location. But it didn't work out: the rent was $2,000 a month, he was losing $4,000 a month, and he shut it down. The other is a store in an underperforming center, in a mall built near a new subdivi-


Greg Thomas

sion. The rent there is $1,800 a month, but he's decided to weather the recession that slowed growth in the area and keep it open. "We're not making a profit, but we're not losing too much. We're waiting for Atlanta to grow out to it."

"It's all about causality," agrees Hashim. How did a unit get into this situation in the first place, and is the cause reversible? "You owe it to yourself to have a very robust review of every unit you're having trouble with to see you didn't overlook something," he says. "I've had stores that were down for a year and came back. There was construction up the road I didn't know of, or new competition came in, but then the novelty wore off and customers came back."

Feeling the pain

Once you've decided to close a unit, it's time to deal with the how-to. The key is to communicate with all parties it will affect as early as possible. Denial is not a strategy.

"Once decided, what to do with the franchise agreement is an entirely different conversation," says Thomas. "It's a question of who's going to take the hit."

"Everybody needs to feel some pain in a turnaround situation," says David Ostrowe, who operates 25 Burger Kings in Oklahoma and Louisiana. "Most people focus on the financials, but it's also the people, operations, and internal financial matrix. Then you have to go after the big deals, which involve pseudo-legal discussions."


David Ostrowe

"In my previous business, we closed some restaurants but I always made the lenders whole," says Russ Umphenour, whose RTM Restaurant Group operated 775 Arby's when he sold it to the franchisor in 2005. Since November 2008, he has been president and CEO of Focus Brands. "Not everybody believes in that as strongly as I do."

As a franchisee, he says he never left lenders in the lurch. "If you don't have the money, go to the lender and renegotiate the terms, and wrap that into your other stores," he says. The same holds for leases. "If you have any intent of staying in the business, you can't leave landlords high and dry."

"The franchisor doesn't want to see you close in the middle of the night, and neither does the landlord," says attorney Lane Fisher of FisherZucker in Philadelphia. "Find all the constituencies and make them all reasonably whole," he advises. Closing a unit could be a breach of your development agreement. What other contracts are affected? What does it say in your franchise agreement about closing a unit? Are you vulnerable to cross-default? Closing a unit often can be more complicated than opening one, he says.

Who ya gonna call?

• **Franchisor.** The most important issue is meeting your obligations under the franchise agreement, especially items such as lost future royalties and personal guarantees. It's best to negotiate those items out of the agreement before signing, if possible, and some franchisees simply refuse to sign a contract containing onerous clauses like those. But once you've put down your John Hancock on a contract, you're potentially liable to meet those obligations. The next best step if you have a failing unit is to contact the franchisor up front and try to negotiate an exit strategy.


Russ Umphenour

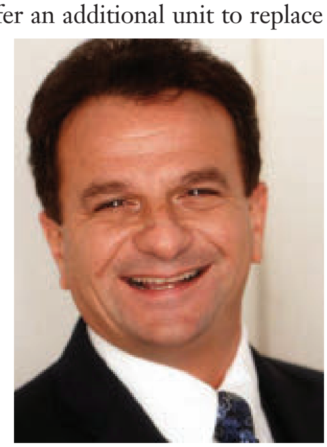
Different franchisors react differently to closed units, says Zuccarello. "Some are easier to work with and will encourage working with a franchisee. The other end of the spectrum is where the franchisor is interested in every last dollar of royalties and contributions to the ad fund."

"The franchisor is in the business of collecting royalties," agrees Ostrowe.

"I've had franchisors at the extremes," says Hashim. "I could be losing $100,000 a year and they don't care, as long as they get their royalties." He's also seen the reverse, where the franchisor begs *him* to close down, and he continues to think it can work. "Those are the brands that I think are worth their weight in gold. They get me out of a negative location, and I'll build another," he says.

Sometimes, says Zuccarello, if a franchisee is in a growth mode, the franchisor may offer an additional unit to replace one that closed. "In many cases we've seen the franchisor being reasonable and receptive to that. Will they just let you close it, or will you have to give them something in return?"

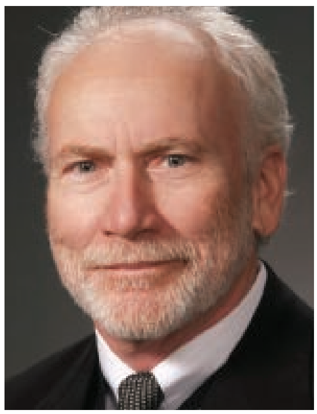
• **Landlords.** Leases can be the biggest financial hurdle to shutting a unit. The key is to communicate early and often with landlords, and in some cases to educate them, especially if they are smaller or new to the business. Problems


Lane Fisher

"A poor-performing franchise clearly damages the brand equity for the franchisor and franchisee... there comes a point when we have to ask them to leave for the good of the whole." — Dina Dwyer-Owens

for franchisees include clauses about continuous operation and dark stores. What's critical on the front end is to negotiate a lease without those clauses if you can, but once you've signed it's a matter of dealing with the landlord on how to get out.

Contacting a landlord on the front end is a lot easier than doing it later, when the situation has deteriorated even further—but it's not a 100 percent guarantee you'll get what you want, or even cooperation. "A lot depends on the quality of the center and the demand," says Patrick Bradley, an attorney with Bradley & Deike in Edina, Minn., who has represented franchisees for more than 30 years. "Landlords have to be concerned about dark centers," he says.


Patrick Bradley

"If we get to them ahead of time, and not after closing without notice, landlords for the most part are reasonable because they understand the economics of the situation—not necessarily easy, but reasonable," says Bradley. "In most cases we've been able to negotiate an early termination. The landlord understands that if a tenant is struggling, it's better to work out a mutually agreeable transition. It sure beats chasing them."

"Larger landlords aren't as dependent on one tenant in one shopping center," he says. "They have their assets spread over a larger base, they understand the economics, and they don't take it personally." Smaller ones, he says, often don't have the economic understanding or wherewithal to appreciate the franchisee's situation.

In one deal, says Ostrowe, "The biggest relief I needed was the landlord's. The lease was bleeding us dry. I had to go in and say that it was easier to litigate than pay the rent. The facility was bad and the price was too high. If we didn't renegotiate, our choice was to shut down. I didn't want to threaten these guys, but you have to make them understand when a location is bleeding cash."

"When you're getting ready to sign a lease, fully understand the commitment and responsibility you're stepping up for—and what's the worst that could happen," says Umphenour. "How am I going to handle it if it doesn't do what I think it will do? Ask the right questions *before* you go in."

• **Lenders.** Lenders, on the other hand, typically look favorably on a decision to shut a cash-bleeding unit, says Hashim. "For a multi-unit organization, they're happier if you don't have a negative cash flow on your books. Your EBIDTA goes up if you close a losing store," he says. "I've never in my career had a bank that had a problem with me resolving a negative cash flow store." Assuming all the other factors permit you to close, he says, most banks are supportive of anything that makes the enterprise stronger.

Of course it depends on the specific circumstances, says Zuccarello. It's easier if you have one lender covering all your assets. "For example, if you have 10 units and one's a dog, the lender is interested in seeing the overall strength of the company improve. What they give up in fixed collateral they're going to more than substitute in improved cash flow." And while a lender will be supportive if they're the sole lender for those 10 units, if they're lending on only one, their cooperation becomes more problematic. "How is the lending structured?" says Zuccarello. "Is there a personal guarantee? Other assets? Is it cross-collateralized?"

• **Suppliers.** Any unit closing, says attorney Fisher, "should be done in an orderly process after looking at all your contractual commitments and arrearages," he says. "Just because it's in the interest of the lender, it doesn't mean it's in the interest of the landlord or supplier. You have to pay your key suppliers. If you don't, it gets rolled into costs for everybody else." Additionally, he says, it could affect your negotiations for volume discounts. "You can lose purchasing power."


Dina Dwyer-Owens

Damage to the brand

"Our goal would be to catch a failing franchisee before they get to the point where they have to shut down," says Dina Dwyer-Owens, CEO of The Dwyer Group. "We have some early warning systems in place and work hard to get the franchisee to resell the business before there's nothing to sell. We have a resale coordinator for each brand that will help facilitate this process. We find that sometimes they can sell off just a part of their territory and be left with an area that's more manageable, in the case they bought too big," she says.

"A poor-performing franchise clearly damages the brand equity for the franchisor and franchisee," says Dwyer-Owens. "We will make numerous attempts to redirect the franchisee and get them to work the system. Yet there comes a point and time when we have to ask them to leave for the good of the whole. It is not customary for us to come in and run a franchise location as it might be for some more retail-oriented businesses.

"As a franchisor, if I'm convinced the franchisee can't make a go of it, I'd rather have it closed than be a [poor] brand ambassador. It projects the brand in a bad light." — Russ Umphenour

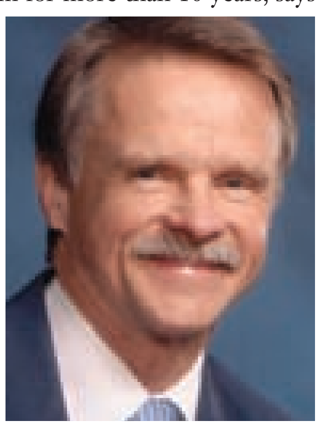
Our preference is always to help the franchisee get back on track, and the times it does not work are a big disappointment to all parties concerned."

"As a franchisor," says Umphenour, "if I'm convinced the franchisee can't make a go of it and they cut down on labor and quality, I'd rather have it closed than be a [poor] brand ambassador. It projects the brand in a bad light."

If the franchisor is reasonable and the franchisee has done everything possible to make it successful, then everybody should agree to close the unit, he says. "If the business is not working, it ought to be closed." He emphasizes that this should be a *business* decision. "There are some franchisors who let their legal or financial people run the brand. All you do is create animosity."

"When I think back on which brands acted which way, it's about the confidence of the brand," says Hashim. "Those who are afraid and don't get a lot of growth to begin with are scared of losing any cash flow. I understand that," he says. "It's never an easy solution, but in my opinion you cannot have a healthy brand if more than a certain percentage (2–3%) are losing money. In due course you have to deal with all these negative cash flow units."

"You need to get rid of the bad apples one way or the other," says Thomas. He's been in situations where it's the franchisees who pushed the franchisor to shut down a bad operator to protect their own investment in the brand. Thomas, who has been in the Great Clips system for more than 10 years, says that as president of the brand's co-op, he was very outspoken on this issue.


Darrell Johnson

"We had some stores not following the system. It's an embarrassment to the brand, hurting the whole brand. You have to close them or sell them," he says. "We found people who wanted to buy one of those stores, but the franchisee didn't want to sell it except at a too-high price. But with pressure from the franchisees, and the franchisor starting to fine him and then threaten to close him down, he sold."

Franchisors also are sensitive to the effects closed units have on their brand in other ways, says Thomas. "Because franchisors get evaluated by closure rates, they would rather stay open and do $100 a week, even if the franchisee is working three jobs, to keep the unit open for 5 years." And if a franchisor is small or struggling, he says, they "just want to keep collecting money." Even in those cases, he says, they should get rid of the bad apples.

In deciding to close a unit nowadays, franchisors also must consider the larger financial effects on the system, says Darrell Johnson, president and CEO of FRANdata. "Whatever the cost was of a closed unit prior to 2008, the cost now is much higher," he says. "There is much greater visibility today on what are considered 'failed' units: by the public, by prospective franchisees misunderstanding FDDs, by the media who will attack a brand with a substantial number of failed units, and most important, by the financial community."


John Metz

The dilemma for the franchisor, he says, is that closing poorly performing units—even when it strengthens the overall system—could affect lenders' willingness to provide funding to both existing and new franchisees. Thus, a "spiraling effect" becomes a legitimate concern for franchisors seeking not only to maintain the morale of existing franchisees, but also to sell new units, says Johnson. "The 'aura' is there if a lot of units are not performing. There are lot of brands out there to choose from."

Nature of zee beast

Franchisees also have their reasons for not wanting to shutter a poorly performing unit: it's in their DNA. Entrepreneurial traits such as optimism, tenacity, and the determination to grow in the face of all odds characterize entrepreneurs. There's even a bit of a "warrior complex," doing battle and competing on the field of business. And while these traits are what makes for successful franchisees, they also have a downside when taken too far: pride, mule-headed stubbornness, and an inability to face the facts.

"People who get into these businesses are very optimistic," says attorney Bradley. "I've had clients who stuck with a losing proposition because they expected or believed they could turn it around. My experience is they put everything they had into that. So you definitely need the ability to look at the numbers. That's easier for people who have been around longer or have more units. You need to focus on units that are thriving."

John Metz, who is both franchisee (Denny's, Dairy Queen, hotels) and franchisor (Hurricane Grill & Wings), agrees. "So many multi-unit operators, including myself, pride ourselves on opening new units and growing: 'We can turn this

around!' True operators are always reluctant to close down a unit. But the reality is that by doing so, you can redeploy capital and resources, which is so much better for the organization," he says.

"I had a Denny's in Deland, Fla., that had always been underperforming. It took me 9 years to close it. I always thought we could turn it around. About 5 years before I bought that unit, the previous owner had built another unit about 3 miles away and the volume on this unit declined 20 to 25 percent. I always assumed that with better service and marketing I could bring the unit back to its former level. I tried everything—renovating, billboards, couponing, changing management—and nothing changed. I felt that I could turn it around. I wouldn't accept the reality that the market was too thin," Metz says.

"Nobody wants to lay off staff, admit their baby is ugly. You just keep plodding. I owned the real estate, so I had an additional incentive to keep it. I tried to see what my alternatives were and finally sold to a car wash operator. I walked away covering the mortgage debt on the property, but everything else was lost. I didn't lose that much, only the last 2 years had a significant loss. I wished I'd closed it earlier."

Umphenour has traveled the same road, more than once. "I look back on my history and realize there were a lot of times I could have closed stores but I had this belief…."

It might have been the neighborhood or road had changed, a new building was hiding the sign, or it was a bad site to begin with. "I tried everything you can—a new team, marketing, cleaning it—but at some point I had to say, 'Okay I need to look at my ongoing expenses.' But being the eternal optimist, I didn't confront things as quickly as I could have."

When you reach the point where the facts are undeniable, he says, talk to the landlord to see how you can negotiate your way out of the lease. Then go to the franchisor, lay out all your P&Ls, and tell them, "This store's not making money and I want to close it," he says. "If everybody's objective about it, I think that works pretty well."

Umphenour cites Jim Collins' idea in *Good to Great* of confronting the brutal facts. "I read that after I'd been in business 20 years," he says, and took his team through the book, applying that concept to his own company. "Rather than spend too much time turning around a loser, you can do more by focusing on your better stores." Trying to fix an unfixable unit eats not only into your resources, he says, but your "thinking time."

As Collins wrote in *Fast Company* in October 2001, "Start by confronting the brutal facts. One good-to-great CEO began by asking, 'Why have we sucked for 100 years?' That's brutal—and it's precisely the type of disciplined question necessary to ignite a transformation." And when a unit is failing, that's exactly what you need. MUF

BY MICHELE CHANDLER

FAMILY BUSINESS: *Not Child's Play!*

Three families succeed where many have failed

Operating a successful franchise business is challenging enough. Add in family members and things can get really interesting. Who's the favorite child? Who gets to be CEO, president, COO? When does the founder let go of the reins (and what if he won't)? Issues such as control or favoritism can sink an otherwise healthy enterprise. And then there's the problem of taking the business home or leaving it at the office. Here are three stories of family-run franchises showing that potential problems with family dynamics not only can be overcome, but can be the source of unique strengths that can be channeled into building a prosperous, healthy enterprise—and family.

His three sons

Ever since his sons can remember, Matt Holker has been an entrepreneur. In the go-go 1990s, he was a general contractor and part owner of a home construction firm. "I knew housing was going to eventually come to an end," he says, "I just didn't know it was going to come to an end as it did."

When housing dried up, Holker, then in his early 50s, wasn't ready to retire. And his son Greg, then in his early 20s, had finished some college and was looking for a career. So in 2006, Holker, who enjoys outdoor work, financed the purchase of a Spring-Green Lawn Care franchise for $125,000 and set out to find customers for the lawn and tree care business.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"If you're looking for a family franchise, study who is going to do what and whether it fits your family and the individual people in it."

At first, the seasoned business owner took care of the company's books and handled outdoor lawn work, with Greg also maintaining customers' yards and trees. It was a wild ride, Holker recalls. For the first three years, he says, "We ran nonstop just to keep things even." Things are better these days: the Minnesota-based operation reported $620,000 in sales last year, up about 6 percent from 2011, says Holker.

Both the business and family involvement have continued to grow with the addition of Holker's other two sons, Luke in 2009 and Kevin in 2010. Today the four hold equal partnership in the business, GM Lawn Care, named after its first two owners, Greg and Matt.

Matt Holker and sons

When Luke, his eldest son, began to tire of his manufacturing job at a glass production factory, he started helping out at the family business on a part-time basis. His father quickly recognized Luke's knack for office and financial work. "He would come in to do the book work after he got back from his other job so he could get introduced to that side of it," says Holker. Since 2009, Luke has been the company's treasurer and office manager, handling payroll and compiling customer lists as well as monthly and quarterly business reports.

Youngest son Kevin joined the company a year later, after his discharge from the Air Force, where he had maintained airplanes as a crew chief. "I didn't have as much influence on him joining the company as his two brothers did," says Holker. "He didn't have anything else lined up at the time and they wanted to take him in as a partner. I said, 'That's fine. Let's put him to work.'" Kevin is now responsible for maintaining the company's five trucks, as well as pitching in on yard care work.

Their experience illustrates what it takes to keep a family business thriving for the long term, while ensuring family connections stay strong. They say their achievements have been made possible through a shared strategic vision, open communication, and plain old hard work.

"I think the biggest thing we have going for us is we all fit into our roles well," says Luke. "If you're looking for a family franchise, study who is going to do what and whether it fits your family and the individual people in it."

Adding more family members, however, boosted the company's need for revenues. "We couldn't stay at that small stage," says Holker. "We had to get a little bit bigger. Otherwise we couldn't support all those families. That in essence moved us to buy out other franchisees."

They made their first purchase in 2009, buying a Spring-Green franchise in a nearby territory from a couple who were retiring. Two years later, they purchased another.

With those purchases came difficult lessons, says Luke, including having to cut the position of the customer service manager who had come along with the purchase of the second franchise. That left him handling customer service along with responsibility for the company's books. "That was challenging to say the least at first," he says. "And it still is. The volume can get pretty impressive at certain times of the year." With the addition of two more franchises, their client count tripled to 1,200, resulting in a huge increase in customer service calls.

Luke says his family has successfully taken on the challenge of expanding their family-owned franchise because "we're all honest with each other and work hard."

The four owners meet regularly to keep each other apprised of their progress, an especially crucial practice since each sees a slightly different part of the business. Though he's the most recent to join the company, Kevin is encouraged to weigh in. "If you don't leave that avenue open," says Holker, "we might miss some creative idea from him that none of the rest of us would ever have thought of."

Exceptional communication is one of the hallmarks of a successful family-run enterprise, says Joseph Astrachan, executive director of the Cox Family Enterprise Center at Georgia's Kennesaw State University. People in thriving family-run businesses, franchised or otherwise, "constantly have discussions about where they are going and why. Another phrase for that is strategic planning," says Astrachan, who is also a professor of management and entrepreneurship at the university. "It's constantly asking, 'Are there things we could be doing differently than what the franchisor suggests in terms of the operating systems, advertising, and promotions we do, or how we

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"The conversations can be heated and sometimes get emotional. But at the end of the day, we respect each other, and the synergy between us has allowed us to grow the business rather significantly."

deal with employees?'"

As president, Holker has the ultimate say on business decisions, even though he and his sons each hold an equal 25 percent ownership stake. Still, he prefers that his sons reach a consensus among themselves, basing those decisions on what's best for the company. And when it comes to spending on marketing, equipment, and other needs, a majority must approve, he says.

"We're a four-way partnership," says Holker. "Opinions are wonderful, but you've got to back them up with something. And if the numbers don't back you up, you don't have much leg to stand on. As much as we can do it, we try to base things on numbers."

Once Holker, now 58, is no longer involved in the business, he wants Luke to assume the top decision-making post. "He's the oldest, so the others tend to listen to him better anyhow. But they don't have to follow that sequence if they don't want to," he says.

Family ties that bond

Before signing on as one of the first dozen Batteries Plus franchisees in 1994, Jose Perez already had racked up a successful career in international business. After leaving a job as a Spanish teacher at a high school in Illinois, Perez became a sales rep for GTE Sylvania. Promotions led to top marketing posts in Central America, where he was based in Costa Rica and Venezuela.

In 1979, after leaving that job, he started a company in Miami that sold light bulbs in the U.S. and also exported them to Central America. In 1992, after growing that business to $10 million in sales, he sold his share of the company to his partner. Soon afterward, when a major hurricane destroyed his neighborhood in Miami, Perez and his wife Regina left to settle in Oregon.

Jose Perez

While searching for a new opportunity, Perez, a self-proclaimed lover of new technology gadgets, became exasperated trying to find batteries for his electronic devices. "My laptop battery went bad, my cell phone battery went bad, and my camcorder battery went bad, and I couldn't find replacements," he says. He spotted an ad in the *Wall Street Journal* for Batteries Plus, a new company seeking franchisees, and was on his way.

Perez started the company in 2004 with his wife Regina. Their son Miguel, then a recent college graduate, also worked for the company from day one. About a year later, Tony, their other son, joined the company after earning a degree from Florida State University.

Today Perez, along with family members, operates eight stores in Oregon and two more in Vancouver, Wash. He says his franchise, with about $13 million in sales in 2011, is now the largest in the Batteries Plus system, and three of his five children are involved in the business.

Both sons are now shareholders, each holding a 20 percent stake in the company, while Perez retains 60 percent. Each son runs half the company's commercial sales operations. Tony also trains the company's 47-employee staff. Perez's daughter Lara also works in the business, as does one of his sons-in-law.

Enduring family ties, along with lines of communication that are always open, help keep the company on track. Perez says he's part of "a typical Spanish family" that's gregarious and close, regularly spending time together at their vacation homes or holding family tailgating sessions at Oregon Ducks football games. Bringing his children into the business was only natural, he says. "I just wanted my kids around me."

Keeping the family together outside the business is critical to a family-run company's long-term success, says Ira Bryck, director of the Family Business Center at the University of Massachusetts-Amherst. "You need to make sure the family has a life outside of the business. You need to build a strong, loving, and tolerant family."

Moving the business forward economically, however, meant maintaining a strong work ethic. "If they needed to work 80 hours, they worked 80 hours," says Perez. "There were never any kind of breaks in that regard. There were always rules and regulations and professional expectations."

At the conference table, no one shies away from tough discussions or tells Perez only what they think he wants to hear, just because he's their father as well as CEO. "That doesn't happen here," Perez says with a laugh. "We've got a very lively group, a very strongly opinionated group. I encourage that. The conversations can be heated and sometimes get emotional. But at the end of the day, we respect each other, and the synergy between us has allowed us to grow the business rather significantly."

The company's inner circle also includes two non-family

"We try to make a decision with multiple people involved. As long as I'm healthy and still around, I get the final vote. I just don't like using it because I prefer for them to make the decisions."

members who have worked for the company for at least a decade and have an equal voice in decisions. Both of those individuals, the vice president of store operations and the director of administrative services, have been with the company for many years, says Perez. "I have nurtured them and helped them grow. They know how I think. They know what's good for the business and what's not."

Astrachan says that many of the strongest family-run enterprises have an active and involved board of directors willing to speak openly and directly. "The most effective people are willing to tell you the truth, even if you might not want to hear the truth. They have the capacity to be candid or be brutally honest," he says.

Such candidness also can be a source of new ideas that benefit the company as a whole. "This person on the board would be maybe highlighting some of the things you could be doing differently that would be outside of your normal way of thinking about the world," says Astrachan. They also can provide insights and opinions that can prompt franchisees "to think much more broadly than the frame of reference that the franchisor might be coming from."

In line with that, for the past four years Perez has relied on an outside consultant to help the business hone the best strategies for growth. They touch base through a series of monthly phone conversations that last a couple of hours, as well as through a three-day management team meeting each summer and quarterly meetings with all the staff. "We review all the programs that we have started and see the progress on those programs. So we're getting an outside view." Always a good idea in a closely held business.

Family affair

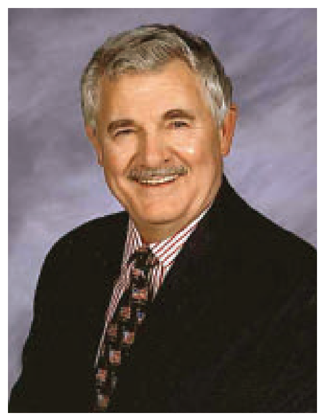
As CEO, Gregory J. Hamer Sr. presides over B&G Food Enterprises, a fast-food business he and his wife Brenda started in 1982 when they opened their first Taco Bell franchise in Morgan City, La. Today, still based in Morgan City, B&G has 83 locations, more than $100 million in total sales, 1,700 employees, and is the largest Taco Bell franchisee in Louisiana.

A host of next-generation Hamers have helped drive growth at the company, whose brands include Taco Bell and KFC, as well as combination Taco Bell/KFC, Taco Bell/Pizza Hut, and Taco Bell/Long John Silver's units in Louisiana, Texas, and Mississippi.

Hamer knows firsthand what it means to work for a parent. In 1968, as a 20-something with a freshly minted business degree from Louisiana State University, he began working for his father's oilfield service firm. He did well, but decided that if he ever ended up running a company that included his own children, he'd make some changes—like allowing them to implement more of their own business decisions.

"I always felt that my father had run his business for a long time by himself and he didn't think a lot of efforts to see it my way. If his way was working fine, he didn't see any reason for changing it," says Hamer.

At first, his two daughters joined the business after graduating from college. Tracie, an accountant, spent 15 years with the company, while Valerie worked in operations running one of the restaurants before moving on to handle advertising. Both eventually left the company to raise their children.



Gregory J. Hamer Sr.

Today, Greg Hamer Jr., executive vice president of administration, handles development and support services; son-in-law Jay LeBlanc is vice president of human resources; and son-in-law John Hover Sr., executive vice president of operations, oversees the restaurants.

While describing himself as the company's top decision-maker with no immediate plans to retire, Hamer also says he has been out of the company's day-to-day workings for the past three years, so his son and sons-in-law now handle the bulk of the company's operations.

Today Hamer Sr. and his wife own 50 percent of the business, and their children own the other half. He says he's been very open with family members about employee compensation and other financial perks, adding that he wants everyone to feel they are being treated fairly where pay is concerned. Also, he hopes that providing across-the-board knowledge to family members will make the eventual ownership transition smoother.

Recalling his days working for his own father—when he had big ideas but little authority—Hamer says that when it comes to how his own children run the business, "I've tried to just bite my finger and let them do what they want to do."

However, he still weighs in with opinions about new locations or other strategies. "Sometimes I'll tell them, 'Look, I've already made that mistake, let's try another option,'" he says. But, he adds, "Wherever possible, we try to make a decision with multiple people involved, as opposed to having one person making a decision. As long as I'm healthy and still around, I get the final vote. I just don't like using it because I prefer for them to make the decisions." Yes, family businesses *can* work, but it takes a special group to succeed. MUF

AdIndex

Security

BY PETER CLARK

Data Breach Coverage

It's better to be safe than sorry

With an estimated 1.8 zettabytes of information created and stored in 2011 alone, there has never been a more opportune time for hackers to challenge franchise data security, according to a DC Digital Universe study. Numerous yearly reports announce the increasing strain of data breaches among large and small businesses alike. Since it may seem impossible to predict and protect against each possible scenario, have you considered breach coverage or breach insurance to act as a fail-safe solution?

The *real* cost of compromise

What many businesses don't realize is that the compromise fine assessed by most merchant processors ($5,000 to $50,000) is only the beginning of penalties associated with a data breach. Other costs may include the following:

- a required forensic investigation ($12,000 to $100,000);
- onsite assessments by a certified Qualified Security Assessor (QSA) for years following the breach ($20,000 to $100,000);
- an increase in monthly card-processing fees;
- year-long credit monitoring services for compromised customers;
- card reissuance penalties ($3 to $10 per card);
- customer fraudulent charge reimbursement;
- federal/municipal fines;
- loss of customers;
- brand damage, especially if negligence was a determining factor; and
- legal fines, if sued by customers.

Breach coverage: the best medicine

For franchisees looking to mitigate business risk, breach coverage is no longer optional. Many security professionals state, "It's not a matter of if you are breached, but when." When all other security protocols have been followed, breach coverage exists to address the financial hardships your business will endure in the aftermath of a compromise.

Financial assistance

Most breach coverage programs cover costs relating to a card data compromise up to a financial limit (e.g., $100,000). The best breach coverage programs cover all compromise expenses relating to the Payment Card Industry Data Security Standard (PCI DSS), HIPAA requirements, and the Gramm-Leach-Bliley Act data security standards. Beware of breach coverage or breach insurance programs that narrowly interpret industries, or that allow expenses to be spent only on specific fines and penalties relating to a breach.

Breach protection makes the most financial sense when combined with other tools that reduce actual risk, such as internal scanning tools that help find and remove stored card data, and strong policies that help prevent data loss.

Security policies

Business security often fails because organizations lack security policies that regulate employee interaction with sensitive data. In fact, 87 percent of small and medium-sized businesses don't have a formal Internet security policy for employees, according to the National Cyber Security Alliance and Symantec. Some breach coverage programs include templates that offer general security guidelines that franchises may use to create customized company policies for employee training to secure payment card processing.

Liability discovery tools

Unprotected card data is the number-one reason hackers target businesses. Implementing a card data discovery tool is one of the most important security measures a franchisee can perform to immediately reduce liability. Most franchisees don't contemplate the entire lifecycle of data, and don't realize payment card data may be stored on their system. A card data discovery tool sniffs a network and locates unencrypted payment card data for secure deletion. A study by SecurityMetrics found that 71 percent of merchants store card data, often unknowingly. The key to effective card data discovery is to deploy a tool that searches quickly, accurately, and with as little disturbance to systems as possible. Some breach coverage products include such a tool to locate card data.

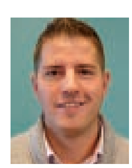
Is it worth it?

The cost and amount of breach coverage varies by provider. For example, SecurityMetrics Assurance includes a card data discovery tool, data protection policy, security consulting, and covers $100,000 in the event of a breach. It is available to franchisors for as low as $70 per year per merchant ID (MID).

Reflect on these three factors when considering what coverage plan is right for your franchise:

1. *Flexibility.* Will your vendor cover more than just regulatory fines, such as card reissuance and response costs?
2. *Coverage and premiums.* How much will a breach coverage program cost you per month/year, and how much coverage does your franchise need? The size of your franchise will help determine which type of breach coverage fits best.
3. *Vendor options.* Does your breach assurance provider include additional risk mitigation tools or discounts for PCI-compliant businesses?

If you handle, process, or transmit a single card over your network, you are at risk of financially damaging your business. To fall back on the overused phrase, it's better to be safe than sorry with breach coverage. MUF



Peter Clark *is manager of franchise sales at SecurityMetrics, responsible for establishing and fostering relationships with franchisors, strategizing corporate payment security initiatives, and internally centralizing franchise communication. He can be reached at pclark@securitymetrics.com or 801-995-6431.*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BY STEVE LEFEVER

Are You Financially Literate?

Review financial statements like a real pro—even if you're not

In our line of work, we see a lot of ugly financial statements. Not ugly in the sense that the business is performing poorly (well, we see some of those too!), but ugly in the sense that they contain glaring bookkeeping errors. We suspect there are several reasons for this. One is the proliferation of software that makes "doing the books yourself" attainable for almost anyone with basic computer skills. Answer a few interactive questions, choose from the drop-down list of industry choices, and you're off and running with your very own profit-and-loss statement. Press a few more buttons, and voilà, instant balance sheet!

The other reason is that many business owners consult accounting professionals only at year-end to figure out how to reduce taxes. While we're usually all for saving money (and paying no more taxes than absolutely necessary), this approach can cost dearly in the long run. First of all, if you're waiting until year-end to do tax planning, you might be waiting too long to take proactive steps. In addition, if you do the books in-house, you'll mostly save a lot of time (and not a little heartache), if you bring in a professional to help get you set up correctly from the start—and periodically review your statements to ensure accuracy.

And finally, most business owners, if they're not doing the bookkeeping themselves, are most likely in the difficult position of having to hire, train, and then manage a person in a position about which they themselves might have little or no knowledge… not an ideal situation. Then, periodically, you get to review the output of this person, again not really knowing what you should be looking for (or at).

We have entire workshops built around reviewing the numbers part of financial statements to use them to diagnose the financial performance of your business. Here is a brief primer for the "non-numbers" business owner on how to review statements to help you determine if they are, at the very least, an accurate reflection on what's happening in your business.

Be curious. Don't be afraid to ask questions. And if it doesn't seem right to you, get to the bottom of it!

1) Balance sheet

Are there any unusual balances, such as:

• Negative amounts (only accumulated depreciation and amortization should be negative);

• Negative cash – should be in the form of a note payable (or bank overdraft) on the liabilities side;

• Inventory – amount should vary from month to month according to actual inventory levels (if inventory is off, then your cost of goods, net profit, and retained earning amounts will be off as well);

• Accounts receivable – should have a balance (assuming you sell on account); and

• Accounts payable – should have a positive balance (except in the unlikely event you've paid off every one of your suppliers by month-end).

2) Profit and loss

• Sales and cost of goods sold detailed for each category.

• Sales should be greater than cost of goods sold for each category.

• Cost of goods should vary each month to reflect actual expense, not estimate.

• Estimated depreciation should be entered monthly, and then reconciled to actual amount at year-end.

3) Overall look

Profit-and-loss expenses should be grouped by expense category. For example: sales and advertising expenses, employee expenses, general and administrative, and not just be listed in alphabetical order.

Add a column that shows expenses as a percentage of sales, along with year-to-date and year-to-date from previous year so you can see trends and determine real changes in your expenses, not just changes from sales increases or decreases.

And finally...

Be curious. Don't be afraid to ask questions. And if it doesn't seem right to you, get to the bottom of it! If you (or whoever you use to do your books) can't produce both an accurate profit-and-loss and a balance sheet on a monthly basis, think about outsourcing or upgrading your bookkeeping services. And if your accounting professional isn't available for large portions of the year because of tax work, or isn't capable of providing this type of advice, find one who is. We promise they're out there. 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.*


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▪ 177.2 million guests served in 2011
▪ 15 new entities signed franchise development agreements in 2011
▪ 487 restaurants in 39 states (364 franchised, 123 company-operated) as of 1/2/13
▪ 21 new Golden Corrals opened in 2011—one every 12 business days
▪ 21 Golden Corral restaurants projected to open in 2012
▪ Third-party financing available from more than 40 of the nation's leading lenders
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BY CAROL M. SCHLEIF

Scaling the "Wall of Worry"

Taking stock of 2013 to strengthen your portfolio

October marked an infamous anniversary on Wall Street. Twenty-five years ago, the unthinkable happened when the Dow Jones Industrial Average dropped a record 106 points to end the trading week at just under 2500. The following Monday, now known as "Black Monday," the index shed an additional 508 points in one session. While the day's decline was widely blamed on a newfangled process called "portfolio insurance," it didn't help investor psyches that U.S warships started shelling an Iranian oil platform in the Persian Gulf that very same day.

At the time, given the multitude of concerning events, many high-profile economists, strategists, and media outlets immediately began predicting a global recession and bear market. Interestingly, neither happened. The Dow ended 1987 in positive territory, and the economy kept chugging along at a relatively steady pace for years. When the stock market marches upward, despite dire headlines, it's said to be climbing a "Wall of Worry." Veteran investors will tell you these are often the best markets to build portfolio positions in because they typically lack the exuberance that can lead to overvaluation. Yet buying into—and climbing—that wall is never comfortable.

A wild, not-so-wonderful ride

Markets around the globe have been volatile for the past several years, racking up double-digit percentage gains in one quarter, and then losing them all the next. This cycle, amid all the media coverage and array of legitimate long-term concerns (massive government debt, defaults, downgrades, demographics, moderate global GDP, terrorism, the looming fiscal cliff, etc.), understandably leads to frayed nerves and sore stomachs. Further, the public seems to have become disgruntled, disenfranchised, and disgusted by Wall Street. They're also feeling that the little person doesn't have a chance against today's "dark pools" of trades from institutional orders concealed from the public, algorithmic traders, and highly paid Wall Street insiders.

I strongly suspect that in 2013—given the cash, the demographics, and the underinvested nature of personal and institutional portfolios—activity will pick up.

Investor toeholds

Yet, if you look through the angst and the media noise, you'll see that:

• Corporate America has a collective $1 trillion or so in cash on its balance sheets and record-high profit margins, and is staffed for lean times.

• Valuations on many companies are not excessive by historical standards: price-to-earnings ratios on U.S. equities have declined to around 15x earnings per share versus 18x or so a decade ago.

• Cash returned to shareholders from many of these companies in the form of dividends is substantially above the rate one can earn on bonds (and those distribution rates tend to increase each year).

• The owners of the world's privately held businesses—who swore they were going to get out at age 62, but are now five to 10 years older—are now looking for opportunities to cash out.

• Patent issuance has remained strong in the U.S., boding well for research, innovation, and hot new industries.

• Some of the jobs that went away in the Great Recession are not coming back, as our economy strives to reformat itself. Although this is creating immeasurable anguish for those in outmoded industries, it also creates much potential for those able to retrain and/or shift core skill sets to new opportunities. Think for example, about the potential redirection of activity being prompted by investments in things such as liquefied natural gas; our entire energy dependence or independence landscape could be radically different in a short time.

• Stocks are under-owned. Investors—both individual and institutional—have been taking money out of stock funds for more than five years. According to Morningstar Direct, investors pulled $16.8 billion out of domestic stock funds in September alone—and have withdrawn $127 billion in the past 12 months.

• Bonds are over-owned, and there's a seriously brewing bubble there waiting to pop. According to Morningstar, $30 billion was added to bond funds in September, bringing the 12-month total influx to more than $235 billion. Real yields are negative in several developed countries as investors stretch for yield, and bond fund investors may be taking on more risk than they realize as managers put riskier credits and longer maturities in their portfolios in an attempt to preserve yield.

The coming melt-up?

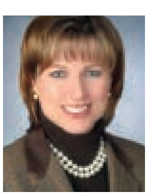
In much the same way that people stop buying current iPhones in the months before a new release, corporate executives across the country remained on the sidelines for months awaiting the outcome of the election. This wait-and-see approach gained epic momentum in the summer months, we suspect, because of the moderation in growth that showed up in third-quarter earnings reports. State governments, too, sat frozen, at least as it related to implementing key portions of the new health care law, at first awaiting the Supreme Court's ruling last summer and more recently the outcome of the election.

Then Hurricane Sandy, encompassing the Northeast just before the election, further impeded economic activity in the short run. Given the confluence of potentially important events, is it any wonder that many economic statistics showed weakness in the third and fourth quarters?

The market's initial reaction to the election was swift and sour, though we think investors overlooked a key point: at least the election gave us a modicum of directional clarity—whether or not one likes the direction. At least corporations and municipal governments have a clearer idea on what the ground rules will be for the next two to four years. While the "fiscal cliff" was still looming (as of this writing), that too will be more fully defined within a few short weeks or months. I strongly suspect that in 2013—given the cash, the demographics, and the underinvested nature of personal and institutional portfolios—activity will pick up.

Wishful thinking? Perhaps. Hopeful thinking? Most definitely. While I don't discount the weighty issues that both the lame duck and the freshly elected politicians must face, we've climbed Walls of Worry before.

The fundamental pieces stacking up are simply too compelling to ignore. MUF



Carol M. Schleif, *CFA, is a managing 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.*

It's Catching!

Creating a contagious culture of service

Capriotti's Sandwich Shop has been named one of Technomic's Top 100 Sandwich Chains and received Sandelman's Award of Excellence for Customer Service. Capriotti's also leads SMG's Benchmark Database of Customer Experience Metrics among fast casual restaurants.

"Culture and service are based on having the right people in the right places," says James Gimbel, who operates two Capriotti's shops in Iowa and one in Las Vegas.

"We genuinely care about customers and we really want to get to know them because we do plan on seeing them again and again in our restaurants. Our goal is really to befriend our customers, to know their names, their families, where they work. That's not possible with every single customer, but that's how we think about it," he says. "The first thing we train every new employee on is to immediately greet everyone who comes through. Smile is number one, and saying 'Welcome to Capriotti's' to reinforce where they are. When people leave, we say 'See you next time' and thank people for coming in."

Gimbel's regional manager, Marc Kustner, explains that a contagious service culture is "more about being passionate and energetic, but it's hard to teach that. I can teach almost anyone how we make a great sandwich. I need to hire the right personalities for our culture." People with the right service aptitude can learn how to channel their natural service instincts to create loyalty-inspiring customer experiences.

For example, Kustner teaches new employees to "Always get a name with an order, never call out 'Number 32.' Always give our own names too, and get a conversation going. I love to send new employees to a table to ask if everything is perfect. Never just ask how lunch is, or if everything is okay. 'Is everything exactly as you wanted it?' 'Was your sandwich perfect?'"

There are clear business reasons to train new employees like this: to focus on the importance of "Taste of Food" and "Friendliness of Staff." Add in "Speed of Service" and these are the three Key Drivers of Customer Satisfaction at Capriotti's.

The accompanying chart shows how customers evaluated their experiences at 15 fast casual restaurant brands over a recent 6-month period. The numbers indicate the percentage of customers who rated a "5" on a 5-point scale, also known as Top Box scores. Customers who give Top Box ratings on Speed, Friendliness, and Taste are Highly Satisfied, not merely Satisfied. That distinction matters a lot. Why? Because Top Box scores on Satisfaction correlate with repeat business and positive word of mouth, which drive comp sales and average sale amount.

Customer Experience Metrics for Fast Casual Dining

Restaurant Brands / Top Box Score

Speed of Service		Friendliness of Staff		Taste of Food	
Capriotti's	73%	D	80%	Capriotti's	80%
A	73%	C	78%	E	78%
H	72%	Capriotti's	77%	A	76%
C	69%	G	75%	D	75%
D	69%	A	74%	C	74%
F	69%	B	74%	G	74%
B	69%	F	72%	B	72%
G	69%	Average	72%	F	72%
Average	67%	E	71%	H	72%
J	66%	J	70%	Average	71%
E	65%	H	69%	J	70%
K	64%	L	68%	L	69%
M	64%	K	68%	K	68%
N	63%	N	67%	M	65%
L	60%	M	66%	O	63%
O	59%	O	64%	N	61%

Data range: 4/1/12–9/30/12

"Asking employees who are 15 to 20 years old to take an interest in metrics is not easy," Kustner admits. "But you can make the service experience real with customer comments. At Capriotti's we post customer satisfaction scores along with real customer comments for all employees to see during brief shift meetings in the morning and afternoon. We do meetings with managers and talk about key drivers and the big difference between a Satisfied customer (a "4") and a Highly Satisfied customer (a "5"), or Top Box score—and how Highly Satisfied customers are twice as likely to return in 30 days and three times as likely to recommend us to friends."

Being at the top of SMG's Benchmark Database on Taste of Food "creates a sense of pride about where we all work," says Doug McCartin, operator of two Capriotti's shops in Maryland. McCartin opened his first location in July 2010 and broke sales records for opening day, opening week, and opening month at that time.

"I think it begins with the quality and uniqueness of the sandwiches—nothing pre-sliced or pre-cooked. We roast whole turkeys and make our own meatballs. Then it's how you treat your people. These are young people, so we try to make it fun. I want my employees to want to come to work. I don't want them to dread coming to work because they don't enjoy themselves. We have good music on and we make sure there's proper staffing for the volume," he adds.

That last comment about staffing makes a great point about creating a contagious culture of service. While you depend on front-line employees to create a great customer experience, they depend on franchisees to provide the resources needed to do the job right. It takes partnership between managers and employees to achieve real breakthroughs in customer service.

The only way to grow sales profitably over the long run is to have customers and employees who love doing business with you. As a result, they become loyal and stay with you for a long time—and they recommend you as a place to work and a place to shop, dine, and do business. 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

Hiring: Finding the Best Employees

Does your system screen out the best—and hire the rest?

When it comes to recruiting and selecting new hires, it's amazing how many astute business owners and managers repeatedly shoot themselves in the foot.

I've made hundreds of best practice hiring system presentations, and whenever I ask if anyone in attendance has hired "the employee from hell," without fail, at least 20 percent of the audience will raise their hands. (And those are just the ones brave enough to admit it in public.)

Most of these hiring mistakes are the result of two behavioral tendencies that seem to be part of our all-too-human nature: 1) resistance to change, and 2) an inclination to take the easy way out.

When it comes to change, no one in their right mind would deny it's an entirely different world today than it was even a short 10 years ago. Yet, rather than change, many employers stick with outmoded hiring systems that might have worked well in the past, but now actually screen out the best.

Whenever I ask if anyone has hired "the employee from hell," at least 20 percent of the audience will raise their hands.

Make the job easy to apply for, hard to get

Few recognize that in today's economy almost all the people who want to work, are working. The people who are employed now are the dependable, honest, diligent people you want to hire. So how do you go about attracting them?

If you're like most, you have some sort of automated application process. And, for those who pass muster, you expect them to forfeit income and/or lie to their present employer to take time off to interview with you at your convenience, Monday to Friday, 8 a.m. to 5 p.m. In this scenario, a person making $10 an hour would probably have to take half a day off, so their weekly paycheck would be $40 lighter and there's no certainty that you'll offer them the job.

I read a story not long ago about a customer service rep who was desperate to find new employment because working conditions where she was were deplorable. When she was invited to interview, she went out on a limb and asked her manager for a half day off "to attend a funeral." Then the prospective employer called her to change the interview to another day!

When it comes to salaried staff, another sign of resistance to change is hanging on to the requirement that the applicant submit a resumé. When was the last time you updated your resumé? Five years ago? And why should you? You're not looking to go anywhere else. No matter how enticing, intriguing, and challenging the position you have to offer is, not many busy working people are going to jump through this time-consuming hoop just to apply.

You cannot hire anyone better than the best person who applies, so make it easy and simple for working people to apply (through 24-hour job hotlines or online), schedule interviews at their convenience, and don't have a lot of up-front paperwork that discourages top talent. (Then be sure to make the job hard to get with rigorous pre-employment testing, interviews, reference, and background checks.)

Are your up-front requirements necessary?

When you're overwhelmed with applications, you must whittle the pile down somehow. Not long ago, this was a manual process. Today this is handled by automated screening programs, but they pose some pitfalls as well. This is where many tend to take the easy way out. We let the computer analyze applications and resumés and send automatic "Thanks, but no thanks" emails to those who don't perfectly match our requirements. It's a great time-saver, but works in your favor only if the requirements are *really required* to do the job at hand.

Take the need for a college degree. What kind of degree genuinely prepares someone to be a customer service rep, or for that matter, a manager or business owner? If you have a degree, how much did it contribute to your success to date? And consider these famous folks who couldn't apply to work for you because they don't have degrees: Paul Allen, Wally "Famous" Amos, Mary Kay Ash, Warren Buffet, Bill Gates, and Steve Jobs, to name just a few.

Another common mistake is to screen out the "overqualified." The thinking is that these people would soon become uninterested or bored with a job beneath their capabilities and leave for something better as soon as possible.

When someone applies for a job for which they are overqualified, it usually means they've been looking for a long time and are strongly motivated to find work of any kind, hoping it will be a starting point that leads to better things. People who have a long, solid work history with a pattern of increasing responsibility will unfailingly bring the same qualities that made them successful in the past to bear

Require only the skills and abilities it really takes to be successful on the job, and don't automatically rule out the overqualified.

on any job. They can't help themselves, it's their nature. Rather than dismiss the overqualified out of hand, give folks with a wealth of real-world problem-solving experience and the ability to get things done the consideration of an interview to explore the possibilities. You could get a top-notch performer for a bargain basement price.

So don't discourage top talent by making your application process long and involved, or asking people to take time off work to interview for a job they might not get. Require only the skills and abilities it really takes to be successful on the job, and don't automatically rule out the overqualified. Those are all good ways to ensure you screen in the best—and skip the rest. 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

Future World: Franchising 2018

Position yourself now for the shifts already under way

Welcome to 2018. The future of franchising is upon us. What does the landscape look like? We don't have a crystal ball, but we can make some educated guesses based on what is happening around us today, and what is likely to transpire in the coming years.

The groundwork

President Obama has recently finished his second term in office. The Affordable Care Act has been absorbed by the many businesses it affects, and these businesses have learned to deal with the incremental costs through managing hours and taking price increases as the market allowed. Business owners have also adjusted to increased income and capital gains taxes, and have devised strategies to minimize the bite. After a few years of historically low interest rates and central banks pumping liquidity into the economy, inflation has begun to kick in, and this is now putting a lot of upward pressure on commodities. Operators who took advantage of the low rate environment to recapitalize their business are very happy that they did.

Franchising in 2018

Based on our observations and projections, here's what we think franchising will look like in 2018:

• The refranchising effort under way by many mature franchise concepts will continue to the point that all units of these systems are owned and operated by franchises. Also, all new store development is done by franchisees. This makes sense because franchisees are notoriously more efficient operators than are franchisors. It also allows franchisors to more effectively manage their balance sheets.

• Franchise ownership may gradually become increasingly concentrated in the hands of a few mega-operators, but this process will take many years. The consolidation will allow these operators to realize increasing economies of scale in terms of operations and infrastructure. Mega-operators will be backed by mega-capital to provide the resources needed to obtain mega-scale.

First, take stock of your operations capabilities, financial resources, motivations and desires.

• Franchisees will also take on image Capex obligations, especially if they are acquiring company stores. Mature franchisors have been keenly focused on upgrading the image of their units, and have required franchisees to bear the cost of image upgrades. It will be important for operators and investors to monitor ROI on these expenditures.

• Eventually, some of the mega-operators may team up and buy the brand from the franchisor in an effort to better control their own destiny.

• On the other side of the coin, many concepts, typically newer or less mature brands, will likely favor a more even balance between company units and franchised units. Explosive growth potential for these concepts will be attractive to franchisees and investors.

• Ample capital will continue to be available to fund franchisee growth. The debt spigot is flowing fairly freely, and there is a lot of interest from equity players, especially for sizable and scalable operations.

How does this affect me?

"So," you ask, "what does this mean for me?" In a word: *opportunity*. No matter the path followed by the franchisor of your system, it is advisable to prepare yourself to take advantage of what the future holds.

What kind of actions should you take? First, take stock of your operations capabilities, financial resources, motivations and desires, and where you are in your own life cycle. Determine if you have what it takes to become 25 percent larger, 50 percent larger, 100 percent larger, or maybe even to aspire to be one of the mega-operators eventually. Remember, you'll be able to take advantage of opportunities only if you are properly prepared to do so. To achieve this kind of growth, you'll need to get your resources lined up:

• What kind of bench strength do I have?

• How will I add the people resources I need?

• Should I outsource some administrative functions?

• How can I bolt on to my existing infrastructure and systems seamlessly?

• Who are/will be my financial backers? How deep is the well?

• Will I have access to both acquisition and remodel capital?

• How do I manage cost increases from employee health care and commodities?

On the other hand, you may be at a point in your own life cycle where you are ready to move on to something else, or even retire. Given the demand for franchised operations, there will be great opportunities for you to transfer your units into the hands of one of the growth-hungry operators. But first, you must be prepared:

• What is my franchise company worth?

• How can I maximize that value?

• What is the best timing for an exit?

• What kind of team of professionals do I need to start assembling to accomplish my goals?

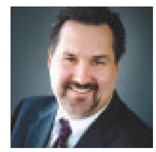
• What does my life look like after my exit?

• Is there a different franchise system I'm attracted to?

Meantime, while you are thinking through your plans, put yourself in a position to recapitalize *now*. Irrespective of how you plan to take advantage of the franchise opportunities in front of you, operators should take advantage of the current rate and capital environment to lock up financing at historically low rates. As more lenders seek franchise loans, underwriting criteria are slightly more flexible, and interest rate hedges and swap position, which have prevented some borrowers from refinancing the past several years, will become assets in the future as rates rise. Don't let short-term closing and documentation expenses defer a recapitalization strategy. Use a professional advisor, contact multiple lenders, get the best deal, and cut your borrowing costs while you plan for your future.

The future of franchising is being laid before us today, and it's up to us to figure out how to secure the maximum benefit from the eventual outcome.

Okay, so it's not yet 2018. But you know how fast time goes by, and 5 years will be upon us in no time. The groundwork for the future of franchising is being laid before us today, and it's up to us to figure out how to secure the maximum benefit from the eventual outcome. Take some time to ponder your situation and what you think the future of your franchise system is. Decide how this might affect you, and how you can position yourself to take advantage of the opportunities being created. 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

Is It 2012 All Over Again?

Will Congress finally act fiscally responsibly in 2013?

In all likelihood, 2013 will feel a lot like 2012. Only two significant factors could change the economic environment in 2013 from the past two years of choppy, but painfully gradual improvement.

One factor—global conditions—is unpredictable and largely out of the control of any of us. Global weaknesses are outside our control, but weigh heavily on the recovery. And it's unlikely many positive shocks are looming in the next year or two internationally. We can't expect much from Europe any time soon. BRIC countries are unpredictable, led by China's apparent slowdown.

The other factor—our own Congress—is within our country's control. Unfortunately, I don't have very high confidence in a positive outcome. If the politicians in Washington somehow are overwhelmed by a strong dose of common sense (I hold out very little hope for this), the influence a compromise will have initially is big, in that it removes uncertainty. Knowing what tax and spending environment we will have for the next few years will help all of us make better business decisions. We have a growing lag in capital spending caused by uncertainty; a compromise will reduce that uncertainty and stimulate basic economic growth. The same is true for consumers: uncertainty will diminish and spending decisions will be made and not delayed. However, many of the spending decisions may be to *not* spend for the following reasons.

Public debt is above 100 percent of GDP. Not only the federal government, but also some of the most populous states, have no ability to spend their way back to economic health. Although household debt has started to come down from all-time highs, it is only at 2006 levels and still well above historical norms. We simply took about 10 years of normal consumer and government spending and compressed it into seven. Earning our way back to normalized spending levels is still a few years away.

Further, a lot of consumer spending ability is in the hands of older Americans, who are starting to enter a retirement-spending mindset. Since 1965, the ratio of Social Security covered workers to beneficiaries has dropped from four to below three. This ratio is headed lower, and we can't do anything about it quickly because it's a generational issue—unless we do something such as open our borders to massive immigration, which usually involves younger people.

If Congress can remove the uncertainty that *is* within their power, we will have a decent recovery over the next two to three years.

Finally, hundreds of years of economic history has shown that rebounds from downturns caused by financial crises come in three phases and take 7 to 10 years to find a new normal. This time around the first phase, marked by capital contraction from consumers, businesses, and government, lasted until 2011. We're in the second phase now, revealed as a gradual willingness for capital providers to begin lending again, albeit very conservatively. By historical standards, this phase should last another two to three years. Thereafter, we will reach a new normal where consumers are optimistic, businesses are expanding, and capital providers are willing to move out further on the risk curve, pricing loans to reflect differential risk.

All these factors lead me to conclude that we are two to three years away from seeing significantly improved confidence levels, the most reliable indicator of economic activity. Therefore, the ability of Congress to alter the 2013 economy is indeed limited on the upside. However, they can significantly affect this forecast on the negative side. While the fiscal cliff was scaled, further delaying a willingness to meaningfully address the underlying issues—primarily tax policy and the social safety net—will lead only to further uncertainty. And uncertainty is the enemy of making job-creating investment decisions.

To be sure, the Fed has done all it can to buy time for Congress to get infected with common sense. Interest rates are at unprecedented lows, which at first had a modest stimulus effect. However, few consumers or businesses are waiting for interest rates to drop another 25 basis points before making an investment decision. The cost of debt capital is so low right now that it isn't much of a factor in investment decisions. This manufactured low-interest strategy will work for only another year or two, at which time we are likely to see a rapid rise in interest rates, putting a big damper on the recovery.

Through all of this, consumers and businesses have remained quite optimistic, a clear cultural difference that Americans have always had. Taken as a whole, businesses have lowered their debt-to-capital ratios and are sitting on a lot of cash. Banks also are sitting on a lot of cash. If Congress can remove the uncertainty that *is* within their power, we will have a decent recovery over the next two to three years. However, if Congress continues to perfect the business of finger-pointing and blame, it makes it very hard for businesses and consumers to make capital expenditure decisions they will have to live with for many years to come. MUF

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