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Multi-Unit Franchisee

ISSUE II 2013

Twice as Nice!

Greg Cutchall doubles up to 50 restaurants in 5 states

- **ENTERPRISING WOMEN**
  Four female franchisees show how it's done!
- **SAFETY FIRST!**
  Protecting your hard-earned assets
- **MB 50 RANKING**
  Top 50 multi-brand operators, by size and brand

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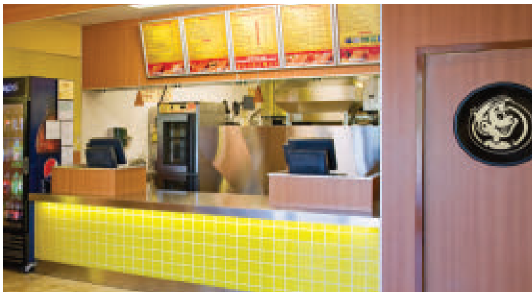

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*See details

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Average Unit EBITDA:
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This advertisement is not an offering of a franchise. An offering can be made only by prospectus. We only sell franchisees in states where our offering is registered. Figures reflect same unit average as reported by units operating in '09-'11. *EBIDTA as submitted by our full service franchised restaurants operating in 2010 & 2011 as published in item 19 of our April 2012 Franchise Disclosure Document. Figures reflect Franchisee submitted on unaudited P&L's. Individual financial performance will vary. Bank Credit Report developed by Fran Data.

Chairman's Note

BY SEAN FALK

What Did *You* Learn in Vegas?

I hope all of you had a great time and learned as much as I did at the Multi-Unit Franchising Conference. It was such a fantastic event, packed full of relevant vendors, incredible speakers, and compelling discussions about franchising.

Did you learn more about the Affordable Care Act? Did you find out how it will affect your business? Did you get a better understanding of the proposed minimum wage increase and your company's payroll? Did you find a new supplier to do business with? There were so many with such great products and services to offer.

Part of my presentation talked about the current state of all of our business models. Compared with the late 1990s, our profit potential today has eroded. It used to be common for us to expect a 20 percent return on our sales. Today, single-digit returns are far more common. As business owners we try to find ways to replace that income.

Our first step is to buy more units. Fortunately, the vast majority of franchise business models are easily scalable. One owner could run 3 to 5 locations all by themself. As a result, more people are stepping into small-business ownership with the intent of operating several locations. But, we cannot solve our problem simply by adding more complexity to our day-to-day lives with multi-unit ownership.

Our second step is to figure out a way to run each of our locations more efficiently. In some of our operations, we can no longer raise our prices to cover for minimum wage increases, commodity price increases, and taxation changes. We need to fine-tune our expenses everywhere else. A dollar increase in expenses may need a $4 increase in sales. But if you can be more efficient that same dollar is eliminated and falls right to your bottom line.

Hopefully, you learned more about your concerns and how to address them, found a vendor to help you, or most important, *networked* with others who have the same concerns. There are so many people willing to mentor!

A franchise system has figured out a lot of the obstacles you may experience in running your business. They have not always taught how to run multiple locations. You should have met many people at this convention who run anywhere between 2 and 200 units. There is someone out there who has faced the same issues you have. They have figured out a way around the obstacles you will face tomorrow. Learn, follow up, implement changes, and MAKE IT HAPPEN!

Sean Falk

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Source: 2006-2013 Brand Keys Customer Loyalty Index

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✓ CONFERENCES

Multi-Unit MVPs Honored in Vegas

Multi-Unit Franchisee magazine announced the winners of its prestigious MVP (Most Valuable Player) Awards last month at the annual Multi-Unit Franchising Conference at Caesars Palace in Las Vegas. The awards honor a select group of franchisees who have demonstrated outstanding performance in building their businesses, growing their brands, and serving their communities. For more information about the conference and surrounding events, visit ***www.multiunitfranchisingconference.com/.***

✓ ONLINE

Multi-Unit Community Grows

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

- New brand opportunities
- Networking opportunities
- Online edition and archives
- Exclusive interviews
- Operator profiles
- Financing resources

www.franchising.com/multiunitfranchisees/.

✓ Getting Philosophical

"Over time, I've created an award and named it ABC, which stands for Accountability Balanced against Compassion. If a person figures those things out, they can genuinely lead and manage teams."

—John "JD" Draper, president of operations for V&J Holding Companies (61 Pizza Huts, 30 Burger Kings, 24 Auntie Anne's, 6 Coffee Beanery, 2 Häagen Dazs, and 2 Edy's)

✓ NEW ONLINE VIDEOS

EmpireBuilders.tv Expands

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, 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.***

✓ PRESS OFFICE

"Don't just survive, thrive!"

Franchise Update Media Group's *2013 Annual Franchise Development Report,* and the best-selling book, *Grow to Greatness,* by Steve Olson offer invaluable tips for franchise sales success and unit growth in today's economy. For ordering information visit ***www.franchising.com/franchisors/afdr.html*** and ***www.franchising.com/franchisors/growtogreatness.html.***

✓ QUICKLINK

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

Health Stats

By FRANdata

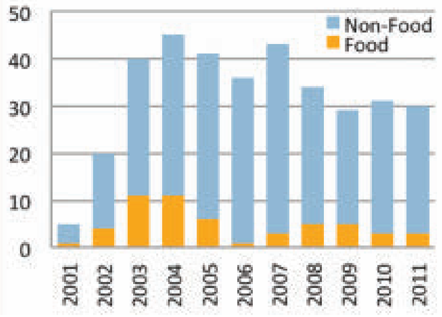
Franchising Health

FRANdata reports on the state of franchised health brands

Little has changed in health-related brands since last year's report. FRANdata still tracks 11 sectors across four industries: child-related, health and fitness, QSR, and retail food. The vast majority of brands aim at helping shed excess pounds, treating weary bodies through massages, or on handling the decline of physical abilities through home healthcare; only a minority focus on what goes into our bodies by trying to influence what we eat.

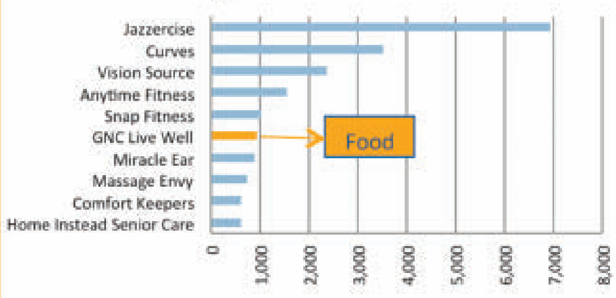
At the end of 2011, the latest year with complete data, more than 400 health-related brands operated about 33,000 franchised businesses. Fifty-three operated at least 100 franchised locations and controlled 28,665 units, 86 percent of the total. Only 15 percent of health-related brands started offering franchises before 2001. The oldest brands have roots in the 1960s, e.g., Gold's Gym (fitness centers) and Interim Healthcare (home healthcare).

Brands Starting to Franchise in the Health Industry



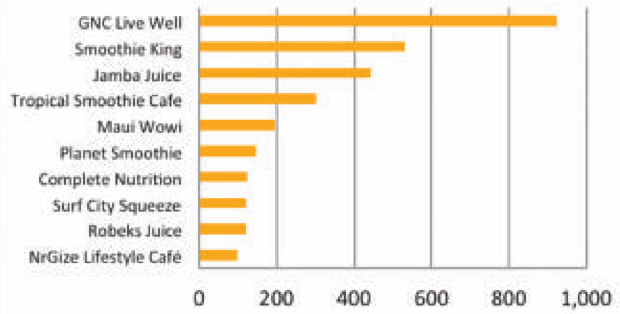
As of 2011, the 10 largest brands in this industry were dominated by fitness concepts such as Jazzercise and Curves. Since it peaked at 7,885 franchised units in 2005, Curves has continuously lost units at an average annual rate of 12%; as of 2011, it was down to 3,523.

Ten Largest Health-Related Brands



Only GNC operates in the food-related segment (some may argue whether brands of this type are strictly in food as GNC focuses on supplements, not healthy meals). With 924 franchised businesses, GNC is also the only food brand in this segment that operates close to 1,000 franchised locations. The next largest concept in food is Smoothie King, with 532 franchised businesses. In fact, the only food brands that have managed to gain scale are dietary supplement outfits such as GNC or Complete Nutrition. However, of the 10 largest food brands in the health-related sector, 8 are smoothie concepts, and Smoothie King and Jamba Juice have blazed the trail.

Ten Largest Food Brands in Health-Related



More recent developments affecting health food concepts include changing demands and new regulations. In anticipation of consumer demand and possible federal regulations, regular restaurant chains not known for a specific focus on health have started adding more nutritious choices to their menus. For example, Sbarro now offers a "skinny slice," with a different mix of cheese and more vegetables at 270 calories.

This may have interesting implications for food brands with an exclusive "health" focus. So far they have not managed to gain a significantly higher market share in the health space. However, as their less healthy cousins in QSR discover opportunities through providing healthy options, they may add to consumer choice and thus increase the overall share of healthy eating choices in the coming years. If and how smaller and less well-known health food brands will rise with the tide will be an interesting trend to observe. MUF

Source: FRANdata, "Franchising in the Health Industry: A Report on the Growth in Franchised Health Brands," February 2013.

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- 80 million wings served annually
- 60 + locations in 20 states
- Wide demographic appeal
- Multiple building designs
- Cult-like following
- Family fun and casual-dining environment

"We have one of the best average unit sales volumes in the industry. Our unit economics, driven by our industry high average unit volumes and guest checks, which are in excess of $17, make Quaker Steak & Lube® a very compelling franchise choice," says Zeb Hastings, Vice President of Franchise Development.

*These figures represent the average restaurant revenue of 16 free standing buildings, of various designs and sizes, operating by both the company and franchisees for at least 18 months as of the fiscal year ending January 2, 2012, as published in Item 19 of our Franchise Disclosure Document dated April 30, 2012. Your individual financial results may differ substantially and Quaker Steak & Lube® does not represent any franchisee.

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Good at Multi-plication!

Multi-concept franchising continues to grow

When one brand just won't do, growth-hungry franchisees add new ones. And why not? Operating multiple concepts provides power in numbers—units, brands, territories, and cash flow—plus the additional security of spreading risk across different brands and territories.

But as experienced multi-brand operators will quickly tell you, it takes an efficient infrastructure to successfully manage more than one brand. Their organizations have talented people at all levels who know how to work well together to benefit the company, its employees, and its customers. Then there's the leverage multi-brand franchising creates, the economies of scale in advertising, market penetration, and buying power, to name just a few benefits.

We've again asked FRANdata for their latest data on multi-brand franchising. This is the sixth year the market research firm has provided us with their list of the country's Top 50 multi-brand franchisees. Curious to see which 25 brands are most popular among the Top 50? Some of the most popular this year are Pizza Hut, KFC, Taco Bell, Burger King, and Hardee's. See page 54.

Numbers are one thing, but nothing really tells a story better those who live and breathe it. This issue, we caught up with six busy multi-unit, multi-brand operators. Each has a unique story, yet all share the commonalities that drive franchisee success: a desire to serve their customers, to provide jobs and opportunities for the people they employ, and a burning passion to grow their business. Here's a sample of what you'll discover in their profiles:

• **Greg Cutchall** certainly knows how to grow quickly: he's doubled his number of units since last we spoke in 2009. His Midwestern empire has weathered the economic turmoil and he's on the grow again. For those scoring at home, he now has 17 Paradise Bakery & Cafés, 15 Sonics, 7 Famous Dave's, 4 Tin Stars, 3 Domino's, 2 Twin Peaks, 1 Rock Bottom, and 1 Burger Star.

• **John "JD" Draper** says, "If you're not hospitable, you're in the wrong game." And with more than 100 units in 6 brands in the food industry, he must be doing it right. He's spent more than four decades in franchising and today oversees 61 Pizza Hut, 30 Burger King, 24 Auntie Anne's, 6 Coffee Beanery, 2 Häagen Dazs, and 2 Edy's units for V&J Holding Companies.

• **Jim Fitlow** and his partner Mike Allen believe in the old adage "Go big or go home." They're going big, building a multi-unit, multi-brand empire around, well, building things. Fitlow oversees 10 HomeStory, 5 Floor Coverings International, and 3 Re-Bath territories in Utah and Colorado.

• **Brandon Jones** has known exactly what he wanted to do since third grade, when he wrote: "Own a bar with my dad." And that's just what he did in the small Indiana town of La Porte. Today the 33-year-old oversees 6 Buffalo Wild Wings, 2 Smashburgers, and recently opened his first Flip Flop Shops location.

• **Lloyd Sugarman** might just be the Franchise Whisperer. That's because he has a knack for sniffing out great concepts early on. For example, in 1987, he became the first Johnny Rockets franchisee. Today, he operates 17 Johnny Rockets and 3 Original Soupman units across 7 states, plus 2 Yeh! Yogourt Glace and Café units in Montreal.

• **Ricky Warman** knows pizza. We found that out when we first interviewed him in 2009. The longtime Papa John's franchisee has added Genghis Grill and Homewatch CareGivers—and today keeps everything close at hand in South Florida: 31 Papa John's; 2 Genghis Grills; and a Homewatch CareGivers territory.

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- **Improving efficiencies**
- **Saving employees time and money**
- **Allowing managers to focus on operations & not pay distribution**

Case Study: Quick Service Restaurant

WENDY'S FRANCHISE SAVES $50,000, ACHIEVES 100% E-PAY WITH WEX RAPID! PAYCARD.

Overview

With 65% of its employees lacking bank accounts, Western Restaurants needed a flexible way to deliver pay while reducing costs. With 52 Wendy's franchise locations across Kentucky, Illinois, Tennessee and Virginia, they employ roughly 1,650 workers.

The Problem & Goal

- Western Restaurants had always relied on paper checks for pay delivery.
- With 43,000 checks, paper had become time-consuming and expensive.
- Annual $148,000 payroll costs kept spiraling higher
- Location managers were distracted by manual distribution of paychecks
- Only 35% of Western Restaurants' employees had bank accounts

As part of a company-wide effort to go paperless, Human Resources Manager Carla Cooper decided to investigate electronic-payroll solutions that could replace paper checks.

Case Study:
Quick Service Restaurant

> *"WEX rapid! PayCard is secure, flexible and reliable, and it eliminates the payday drama for both our managers and employees alike. I can't imagine going back to paper checks. In fact, I can't believe we waited this long to switch!"*
>
> Carla Cooper
> HR Manager
> Western Restaurants

Paperless Made Painless

Cooper first heard about WEX rapid! PayCard through favorable referrals from colleagues. "We'd looked into other paycard companies, but none had the overwhelmingly positive references that rapid! did," she says.

Enrollment was quick and painless and occurred in weeks, not months. Cooper was impressed with the high service level. "I've been in HR for twenty years, and the WEX rapid! PayCard team was the easiest, most responsive group I've worked with on a program roll-out."

Benefits were realized immediately. Western Restaurants shaved administrative time, and more than $50,000 from annual payroll expenses. Also, non-banked employees got new financial freedoms. "My employees love it because they don't have to wait for their pay," says Cooper. "And my managers tell me, 'I can run my store now and focus on customers.'"

Solution at Work

By switching to WEX rapid! PayCard, Western Restaurants eliminated paper checks entirely, and created long-lasting benefits, including:

- 100% e-pay enrollment - cut out 42,900 paper checks annually
- Saved 34% on annual payroll costs—roughly $50,000
- Eliminated payday confusion and improved overall payroll efficiency
- Provided unbanked employees new financial benefits

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Reconnecting with Greg Cutchall

BY KERRY PIPES

Rider on the Storm

From 25 to 50 restaurants in 4 years

As a youngster, Greg Cutchall watched his father and uncle struggle to make ends meet with their two A&W restaurants and told himself he would *never* go into that business. Today, at 60, Cutchall has not only entered the restaurant business (42 years and counting), he's done extremely well, providing a good life for his family and opportunities for his thousands of employees throughout the years.

"Nothing is more rewarding than being in a restaurant you helped create and seeing engaged, happy employees operating a restaurant that keeps customers coming back," he says.

Things have been good for Cutchall since we last spoke with him four years ago. He's grown from 25 to 50 restaurants operating in five states, experiencing the most growth with Paradise Bakery & Café, which he's grown from four locations to 17. He's also added Sonic, Domino's Pizza, and Twin Peaks to his library of brands.

NAME: Greg Cutchall

TITLE: President, CEO, Founder

COMPANY: Cutchall Management Company (CMC)

NO. OF UNITS: 17 Paradise Bakery & Café; 15 Sonic; 7 Famous Dave's; 4 Tin Star; 3 Domino's Pizza; 2 Twin Peaks; 1 Rock Bottom Restaurant & Brewery; 1 Burger Star.

AGE: 60

FAMILY: Wife Molly, 3 children, Cory, Cydney, and Chase

YEARS IN FRANCHISING: 42

YEARS IN CURRENT POSITION: 24

Never one to miss a promising opportunity, he's fueled some of his recent expansion through conversions. His first was turning one of his Famous Dave's units into a Rock Bottom Restaurant & Brewery. He says the move made economic sense and was successful.

"I next converted my oldest Famous Dave's restaurant into my first Twin Peaks,"

PERSONAL

First job: Picking up trash in the neighborhood of my dad's A&W Root Beer stand when I was 7. First real full-time job: assistant manager at a KFC.

Formative influences/events: There are many. My parents, my uncle, my older brother Mike, and my friend of 20 years, Willy Theisen, founder of Godfather's Pizza. One of my formative events would be in 1989, when I left my position as president of a local KFC franchise and started CMC with one restaurant.

Key accomplishments: Staying in business for 24 years in maybe the most difficult, competitive business there is. Creating many jobs and opportunities for thousands of people over the years.

> **"Nothing is more rewarding than being in a restaurant you helped create and see engaged employees, happy guests, the music just right, the lights just right, and a fun, enjoyable environment."**

Biggest mistake: There have been many, but the one that stands out is assuming the lease of a troubled location and assuming I could make it work. That "free restaurant" will have cost me over $3 million by the time I buy out the lease.

Smartest mistake: It started as a mistake when I overbuilt Famous Dave's in Omaha. I turned four profitable Famous Dave's into six not-so-profitable ones. I looked smart when I converted the oldest location into a Twin Peaks. The sales more than doubled at that location, and the remaining locations have continued to improve. Several concepts we have now were former locations of other brands we have. We got into Domino's to fix a "too close" Sonic location that should have never been opened there (less than two miles from an existing Sonic).

Decision I wish I could do over: Again several, but opening a lone Paradise Bakery in markets too far from our core market, and not understanding the dynamics of those new markets under the pressure of a development agreement. I forced two locations that should have never been opened. I will no longer sign development agreements. If someone wants me to develop a brand, let me develop it. If a location makes sense, I will open it. If I move too slowly, let someone else develop; just give me space to succeed or buy me out. Our Paradise division was the champion of our company last year; we love the brand and Panera as our franchisor, but mistakes still happen.

Work week: I get caught up on emails each morning, and work out a few mornings before I go into the office around 10 a.m. After meetings for three to four hours, I try to visit several locations, then get back to the office late afternoon till around 6 or 7 p.m. When not traveling, I like to be home each night before 7 p.m., when possible. We have an open-door policy, so area managers and unhappy employees can reach me any time. My work week runs about 50 to 60 hours, but it's really 24/7.

How do you spend a typical day? A slice of the above.

Favorite fun activities: Although not very good yet, I love to golf when I can. I am taking my COO to golf school with me in Scottsdale this April. He tells me we have been talking about this for 10 years. I also enjoy my Harleys, and playing sports with my 11-year-old, Chase.

Exercise/workout: Last year, for the first time, I hired a personal trainer who works me out twice a week, and my wife and I take long walks together two or three times a week.

Favorite tech toys: iPhone, iPad.

What are you reading? Embarrassed to say I have not taken the time to read many books in recent years. I do read most of the trade magazines, but I prefer movies over reading. I plan to read more when I semi-retire in 10 years.

Do you have a favorite quote? There are many I love, but my "Biggest Mistake" (above) brings to mind this one: "Pigs get fat... hogs get slaughtered."

Best advice you ever got: Not sure anyone had to tell me this, but in the first 10 years of building CMC I was aggressive about buying the real estate on most every deal. My real estate division has saved my company several times and helped me grow my company. Today it's not as important that we own it if the lease is good, but it is still my preference to own when possible.

What gets you out of bed in the morning? Each day in the business is different: new challenges, new opportunities, and a desire to do better than the day before.

What's your passion in the business? I call it "Lights! Camera! Action!" Nothing is more rewarding than being in a restaurant you helped create and see engaged employees, happy guests, the music just right, the lights just right, and a fun, enjoyable environment with a great product that makes employees proud and keeps guests coming back again and again.

How do you balance life and work? Danny Patterson, my friend and founder of Paradise Bakery, probably taught me the most about life and work balance. It's an art form that I still strive for, and thanks to Danny I get better at it each year. No matter what, I will not miss my youngest son's school and sports events. I missed too many with my older children, and I regret it.

Last vacation: We have a home in Scottsdale that I try to get to once or twice a month in the winter for a few days of golf. The work still goes on by email and cell phone a few hours a day. As a family, we spend a week or two in Aspen in the summer. A few years ago, my wife Molly and I enjoyed a 10-day cruise in the Greek islands for our 10th anniversary.

Person I most would like to have lunch with: My dad. He died of a heart attack at 59. I was 25. I would love to still be able to get his advice.

TOPPERS PIZZA IS DELIVERING THE GOODS

TOPPERS PIZZA FRANCHISE OPPORTUNITY

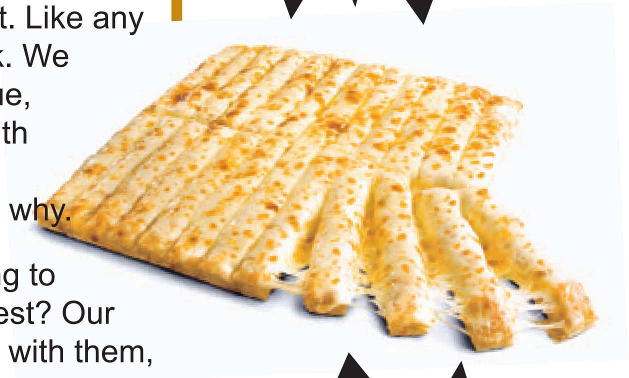
About 20 years ago, we started a pizza joint in the small, utterly pleasant town of Whitewater, WI. There, we tirelessly perfected our model. We grew. Added a few more locations, and before long, we were in Illinois, Minnesota, Indiana, Michigan, Ohio, Nebraska, Kentucky, North Carolina, and Texas. From there, we continued to perfect our model, and got to where we are now: Ready to take this thing to the next level. Why should you care about all this? Here's why:

- Amazing product. Not to toot our own horn, but our Topperstix and Pizza are delicious! We wouldn't be where we are without them.
- Great unit level economics! Our AUVs kick ass!
- Complete Item 19 Financial Performance Representation.
- Small footprint: 1400 - 1600 sq ft.
- We've got great markets and locations available.
- Marketing Machine. We know who our customer is and all our marketing is directed at them.
- Multi-store area development territories available.
- With 20 years experience, we know what we're doing.

RECOGNIZED AS A TOP 50 BREAKOUT BRAND FOR 2013

BY NATION'S RESTAURANT NEWS

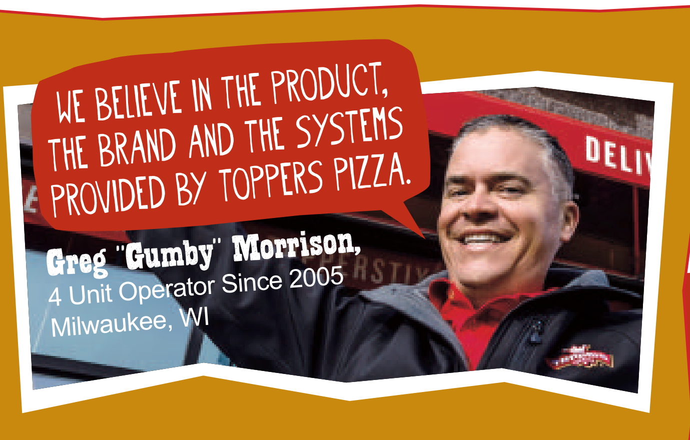
So, what makes us so successful? Well, it starts with our product. Like any good franchise concept, the product has to be great for it to work. We make our dough in-house, daily. We have a wide variety of unique, signature House Pizzas. And we have a big-time differentiator with our World Famous Topperstix™, an item people go nuts over. We're proud of our product and once you try it, you'll understand why.



Of course, we realize there are plenty of places out there claiming to have good tasting pizza. So what makes us stand out from the rest? Our marketing. All our efforts are directed at a specific niche. We talk with them, not at them. We engage them. We become one of them.

RANKED IN ENTREPRENEUR'S TOP 500 LIST

(2013)



Greg "Gumby" Morrison,
4 Unit Operator Since 2005
Milwaukee, WI

Available Territories: WI, MN, MI, IL, OH, KY, IA, TX, NE, NC, TN, AR
New markets available, inquire today!


NOTHING TOPS OUR
SECRET FORMULA
Toppers PIZZA
TOPPERSFRANCHISE.COM

he says. “That change caused sales to more than double at that location.” But he was far from done with conversions, which is how he got into Domino’s in a kind of two-for-one move. After acquiring a group of nine Sonics, he converted a poor performer into a Domino’s and turned it into a moneymaker.

The economy has been on a wild ride since we last talked with Cutchall in 2009, but he’s weathered the storm rather well. Not only has he added brands and doubled his number of locations during the last four years, he’s done it in territories where restaurants have been popping up like wildflowers.

“The landscape for restaurants has been saturated in all of our markets,”

> **Stick with the company slogan: “If it’s not exceptional... it’s unacceptable.”**

MANAGEMENT

Business philosophy: This has changed over the years, but I am learning to do more due diligence. You need to know where the back door is before you go in the front door. Hire the best people you can get and pay them as much as you can. Share the wealth with a clear profit-sharing plan. Involve key people in business decisions. Find brands that are “Best in Class” and stick with the company slogan: “If it’s not exceptional... it’s unacceptable.”

Management method or style: That has not changed much. I am very hands-on and still want any significant decision run by me. I had an area manager say once, “Okay, I get it, this is a dictatorship, not a democracy,” with a smile, of course. But he had made some really bad decisions on his own and I came down on him hard. If a manager is passionate about an idea or plan I will often go along, even if I am not sure it’s the best decision, just so they keep that passion and are not afraid to think outside the box.

“I have been fortunate to attract and keep some of the best people in the business.”

Greatest challenge: I have been fortunate to attract and keep some of the best people in the business, but maintaining that as you grow fast becomes our biggest challenge. I have made some very bad hires over the years… and some very good ones.

How do others describe you? I always seem to have something new going on to share with friends and family. They have gotten to where nothing I do surprises them anymore, and they just smile and shake their heads. I think my employees find me involved, hands-on, and approachable... and fair.

One thing I’m looking to do better: I plan to slow down my growth the next few years and maybe spin off some concepts so I can focus more on what I have. That will be hard for me. I love and have a passion for all our brands.

How I give my team room to innovate and experiment: I have a sweat equity partner in my QSR division (Sonic, Domino’s), Tim Griggs, my COO. He has been with me for 14 years and I trust his judgment. He is really hands-on and works as hard or harder than anyone in my company; he takes all the bullets for me in those concepts. I am involved in new store development, acquisitions, and marketing, but he really runs those restaurants as he sees fit and has earned my trust in his decisions by producing good results year after year. I have a new Famous Dave’s brand leader who has been a ball of fire (in a good way). I continue to give her more decision-making power, and her efforts are paying off. My Dallas and Utah area directors also have a little more decision-making power as they continue to outperform year over year.

How close to operations are you? I am a quality control freak. It does not matter how cool your place looks, or even if it’s the fastest service every time; if the product is not great, they will not come back. I am more involved operationally in the concepts where I only have one or two locations, like Twin Peaks, Rock Bottom, and Burger Star. I plan to have someone in an area position in the next year, but for now it’s me. I love those brands, they are fairly new to my lineup, and I want to be involved day to day.

What are the two most important things you rely on from your franchisors? We really look for our franchisors to give us all the tools we need: training, marketing, R&D, buying power, location studies, and ongoing support. At the end of the day it is our job to execute.

Have you changed your marketing strategy in response to the economy? How? This is a little different in different concepts. Sonic and Domino’s have a huge national advertising budget, so we have to do little but some coupon drops. For my other brands that have smaller media budgets, we continue to improve our social media attacks. Social media is huge, but it is even getting saturated. Everyone has a loyalty card. That’s great, but you will need to stand out without abusing the guest or they will unsubscribe. At some point people will be very picky about who gets their email address; many already have. It is the perfect vehicle for retaining loyal guests, but you still need other ways to attract new guests.

Fastest way into my doghouse? Withhold information, don’t tell me the whole truth, don’t follow through on projects I give you. Hope I forget? I do not forget.

he says. "In Omaha, for example, our population has increased 2 to 3 percent since 2000, but the number of restaurants has increased by 500 percent. The good news is that it does force us to get better every day, and more people are eating out than ever before."

Cutchall says he hopes to consolidate in the near future and reduce his numbers, so he can focus more intently on fewer, more centralized locations—but jokes he's been saying that for years. "I don't measure growth by the number of locations anyway," he says.

Just because he hopes to scale back doesn't mean he's getting out of the restaurant business. "I'll own and operate restaurants until I die," he says. MUF

> You learn to operate smarter during tough times. It's not all bad if you survive.

BOTTOM LINE

Annual revenue: $55 million

Growth meter: How do you measure your growth? Bottom line, not number of locations.

Vision meter: Where do you want to be in 5 years? 10 years? Fewer locations/concepts, but with higher volumes.

How is the economy affecting you, your employees, your customers? Being diversified really helps us during tough times. Our casual dinning was affected, and the 99-cent burger wars hurt at Sonic for a while as we wisely decided not to participate, but our fast casual division continued to grow. I think the worst is over and all of our concepts are up again; and now it's more competition or over-building on our part that can hurt our sales more than the economy.

What did you change or do differently in this economy that you plan to continue doing? Everyone had to learn how to tighten their belts; many moves should have been already in place but were not. You learn to operate smarter during tough times. It's not all bad if you survive.

Is capital getting easier to access? Where do you find capital for expansion? The financing options have improved a lot recently. We have been doing a lot of refinancing, getting all our loans in the 4 percent area. When building my company the first 10 to 15 years it was always FFCA, GE, and Irwin, and I appreciate that they were willing to take a chance on me. In recent years they have not been competitive or as aggressive as our local/regional banks. We are now exploring a one loan, one bank with credit line option with Wells Fargo and some other regional banks.

Have you used private equity, local banks, national banks, other institutions? Not for me at this time. I tried it once at one location because the investors lived there and approached me to do the deal. They will lose money on that deal and so will I, and I do not like that. I have mostly used local/regional banks in the last four years.

What are you doing to take care of your employees? Our key people all share in profits. As far as benefits, we are competitive but I wish we could do more. Health insurance is out of control. And because of heavy government regulations we abandoned our 401(k) plan a few years ago, but I would like to bring it back as I understand it has gotten more employer-friendly. But all new benefits are on hold until we understand the full impact of the Affordable Care Act.

How are you handling rising employee costs (payroll, healthcare, etc.)? Unlike many other companies, we are not rushing to drop our longer-term, hard-working loyal employees to under 30 hours a week to avoid the healthcare cost coming in the future. However, we will not be hiring any new part-time employees for over 30 hours a week.

What kind of exit strategy do you have in place? I will own restaurants until they bury me. I will, however, reduce the number of different concepts over the next 5 to 10 years. Whenever possible, I try to find ways for my long-term managers and supervisors to buy restaurants from me. I have done this several times in the past, and all but one succeeded. It's very rewarding for me and for them. It requires some financial help from me, but I am okay with that if they also have skin in the game.

EXECUTIVE SUMMARY:

SurePayroll Delivers for Vibe Restaurants

Vibe Restaurants with 34 franchises and nearly 1,000 employees in six states experienced payroll growing pains. To find an easy, accurate and efficient way to handle payroll and payroll taxes for its employees in light of ever-changing tax regulations in multiple states, Vibe turned to SurePayroll, a Paychex company. SurePayroll's Franchise Management Portal allows Vibe Restaurants instant access and the ability to manage payroll for all locations with just one secure login.

Meet Vibe Restaurants

Founded in 2005 as the franchisee for seven Little Caesar's restaurants, Vibe Restaurants has grown to 34 franchises under the leadership of Shalin Patel, who succeeded his father in management of the company. Vibe Restaurants manages 33 Little Caesar's pizzerias and one Which Wich restaurant.

The Challenge: Dream Growth Creates Potential Payroll Nightmare

While its success has been a dream come true, managing payroll for all of Vibe's businesses had been more like a nightmare. Vibe Restaurants realized that QuickBooks, which the company had been using, was not nearly robust enough to meet its needs. Vibe needed:

(1) To find a way to efficiently handle payroll for the wide scope of their operations

(2) To ensure that they were keeping up with various and ever changing tax regulations, payroll schedules filing and reporting deadlines

(3) To find an efficient way to manage all the reporting and record keeping for their dozens of locations.

SurePayroll is the Right Fit

Vibe Restaurants signed on with SurePayroll in April 2012. SurePayroll's franchise-friendly online product proved to be the right fit as it could provide:

(1) Secure single login to Franchise Management Portal which provides Turnkey view, access, and management.

(2) A nationally renowned platform which pays and files local, state and federal taxes in all 50 states.

(3) An award-winning US-based customer care team backed by 40 years of payroll experience.

Easy Payroll, Employee Access, & Customer Satisfaction: —"Our number one payroll concern of course is that our employees be paid accurately and on time and have easy access to their payroll details and pay stubs. When you have dozens of employees in dozens of facilities with varying benefits etc., this can be tricky. We know SurePayroll is meeting this need. And our employees appreciate the online access to their information," says Vibe Restaurants Human Resources Manager Rosalyn Williams

Easy Management & Automated Reporting: Williams is most impressed with SurePayroll's Multi-Access solution requiring only one secure log-in to access and manage payroll for all 27 of the franchises. "Being able to log in and see all the companies with just a click allows us to effectively monitor each location to assure their payroll needs are being met." said Williams.

Moreover, since SurePayroll provides comprehensive full service payroll management, there is no need to get involved with tedious tax work and other minutiae that would otherwise keep clients from being able to focus on their own area of expertise.

Conclusion: A Strong Partnership, Peace of Mind and Valuable Time and Cost Savings.

"SurePayroll was able to easily overcome our challenges and even anticipate potential future issues. There is no question we've saved countless hours and an enormous amount of money along the way with SurePayroll." shared Williams.

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Whether you own a couple of franchises in neighboring towns or 200 across 10 states, SurePayroll has one easy payroll solution. Easy Online SurePayroll for Franchises pays your employees and automatically pays and files federal, state and local payroll taxes. Backed by 40 years of experience, if you ever need, you'll have award-winning payroll specialists available to help 6 days a week via phone, email and online chat.

BY DEBBIE SELINSKY

Mr. Hospitality

"If you're not hospitable, you're in the wrong game."

If President Obama decided to name an Ambassador of Franchising, John "JD" Draper, with his dapper attire, mile-wide smile, and booming voice would surely make the "short list" of top candidates. At least someone in Washington is listening: Draper was just voted onto the board of the IFA Educational Foundation's Diversity Institute.

Draper has been a student of franchising since his first job out of Wayne State University. "I went to work straight out of college as a shift manager for a Burger King in Detroit. I made $1.75 per hour," he says. Today, as president of operations for V&J Holding Companies in Milwaukee, he is responsible for 125 units, 6 brands, and 4,000 team members in 6 states (Wisconsin, Michigan, New York, Ohio, Minnesota, and Massachusetts).

From his Milwaukee office, Draper, who describes himself as a "participatory manager," discussed the Affordable Care Act, multi-brand challenges, the economy, and relationships with franchisors, team members, and employees. He comes on strong on each topic, throwing in a memorable, usually original, quip.

PERSONAL

First job: When I was in high school, I walked by a clothing store where I saw some pants I wanted. I didn't have any money but talked to the owner, who said, "Come work for me. I like your attitude." That was my first job. I've always liked nice clothes. I got that from my mother.

Formative influences/events: The most influential event was in the late 1970s when I heard Herman Cain speak at a Burger King convention when he was still executive vice president of operations. He gave a compelling speech about motivation and the will to serve customers.

Key accomplishments: In business, it was the acquisition of the Pizza Hut group in upstate New York in 1997. Personally, my biggest accomplishment is my family. I love them dearly and am elated at being a grandparent.

Biggest mistake: I really don't have a lot of regrets. Perhaps I regret not returning to college for my master's degree.

Smartest mistake: My wife Deborah and I met in high school. She was friendly and I was awkward. I walked up to her and said something like, "I want to be your boyfriend." She laughed at me like I was the biggest fool ever. But years later, we met again and got married.

Decision I wish I could do over: None.

Work week: I'm available 24/7. Everybody has my cell numbers. I usually work 60 to 70 hours a week.

How do you spend a typical day? I start with conference calls, go into meetings, handle emails in between, lunch at one of our restaurants, and have more conference calls. Every other day, in the early evening, I play racquetball, and in the summer I play golf on weekends. After that I have dinner with my family and chat with them.

Favorite fun activities: Golf doesn't like me, but I like golf. I love to control things, so I'm trying to figure out how to control golf.

Exercise/workout: Three or four times a week.

Favorite tech toys: My iPhone. I can't get away from it and it can't get away from me.

What are you reading? David Novak's *Taking People with You: The Only Way to Make Big Things Happen.* The biggest idea I'm taking away from the book is that you really can't get anywhere without people, so you need to take them with you.

Do you have a favorite quote? "Only if effort turns out to be results did 'try' have anything to do with it." I said that in a meeting when a district manager talked about some results that weren't achieved. He was absolutely right: the effort didn't result in success. We do the work to achieve the goal.

Best advice you ever got: My mother told me, "Fall down seven times, get up eight."

What gets you out of bed in the morning? My duty to serve. I get up early even on Saturday morning to shovel snow. And I won't just do the walkway, I'll do the whole driveway. On Sunday, I get up to go to church. These duties are part of my core belief system.

What's your passion in business? Hospitality—you have to be hospitable to be in the business I'm in. I'm in fast food, fast casual. It's tough today. The 16- and 17-year-olds used to be our mainstay, but that's not necessarily true today since we hire people who may not be able to get a job somewhere else. We try to find people with good attitudes, who are cheerleaders for the team. I tell them, "Your attitude determines your altitude."

How do you balance life and work? I do it with the help of my "life coach," my wife Deborah. We've grown up with each other and are constantly bouncing ideas off each other. We also check each other the same way.

Last vacation: A working vacation, of course, in Nassau, Bahamas.

Person I'd most like to have lunch with: Abe Lincoln. I'd like to ask him how he managed to raise a son after losing another one while at the same time trying to run the country. It must have been overpowering, but he did both very well.

NAME: John "JD" Draper

TITLE: President of Operations

COMPANY: V&J Holding Companies, Inc.

NO. OF UNITS: Pizza Hut, 61; Burger King, 30; Auntie Anne's, 24; Coffee Beanery, 6; Häagen Dazs, 2; Edy's, 2

AGE: 62

FAMILY: Wife Deborah, three children, Angela, John (a Wingstop franchisee), and Kristal, and five grandchildren

YEARS IN FRANCHISING: 42

YEARS IN CURRENT POSITION: 12

> **"You guys have written a page in history. Few people have gone through this tough an economy. These life skills will be with you the rest of your life. Be proud."**

And he always concludes the glass is at least half full.

Even when it comes to weathering the economic downturn, he remains encouraging with his teams: "You guys have written a page in history. Few people have gone through this tough an economy—it's only the second worst in our country's history—and lived and managed through it. These life skills will be with you the rest of your life. Be proud."

When it comes to achieving goals, Draper tells his teams: "Only if effort turns to results did 'try' have anything to do with it."

And his favorite theme, and one big reason he's fondly known as "JD" throughout the industry: "If you're not hospitable, you're in the wrong game."

MANAGEMENT

Business philosophy: Over time, I've created an award and named it ABC, which stands for Accountability Balanced against Compassion. If a person figures those things out, they can genuinely lead and manage teams.

Management method or style: I'm a participatory manager. I like to get everybody involved when we have time. Sometimes that complicates or oversimplifies a solution. When there's not enough time for discussions or meetings, I practice executive privilege.

Greatest challenge: Beating back negativity. It's in everything we see and do. The issue isn't the problem—it's how you look at the problem that helps you solve it. It's important for people to fight back the negativities within them, because I believe that what's inside will eventually come out and can hinder you from being a better person.

How do others describe you? I think most people would say I'm positive, energetic, and very happy.

One thing I'm looking to do better: I put my life in four categories: physical/health, mental, spiritual, and wealth. I list things I want to achieve under each column and I work on them.

How I give my team room to innovate and experiment: I believe in coaching and giving examples of life experiences to encourage my team. I try not to tell them what do, but to say, "I remember…"

How close are you to operations? I'm very close, maybe too close, but it's my job.

What are the two most important things you rely on from your franchisor? I'd like to see our franchisors lead in the categories of marketing and training.

What I need from vendors: Value.

Have you changed your marketing strategy in response to the economy? Not really. Our core focus has to be on great service, then great products.

How is social media affecting your business? Social media is affecting our marketing in many ways as we use Facebook, Foursquare, and Twitter.

How do you hire and fire? Hiring: Slowly, we do it real slow. When we hire team members, we have a corporate policy—not mandated by the franchisor—that we have orientation. Every employee, hourly or manager, goes through it. We also do background checks and drug tests, depending on the level of management and responsibility. Firing: We also work slowly on the other end. If an employee is not doing well, they have an opportunity to raise their concerns to a higher level in the organization. We don't leave it all to the shift manager. And we always wait 24 hours before any termination so that cool heads prevail.

How do you train and retain? Thank God, we have franchisors that provide us with tons of information. Because of our many brands, we use the training tools they provide. We're good at retention, I believe, because of our internal process. I look at employment as a track where we orient, communicate, train, re-train, and follow up on the whole process. We allow people to express themselves in a variety of ways, including an employee hotline. As a result of all this, we have some stores with zero percent turnover, which is unheard of in our industry.

How do you deal with problem employees? We look back at ourselves in the mirror and see if we did everything right. If a shift manager wants to fire an employee, he needs the approval of the restaurant manager, who needs the approval of the district manager. We have internal and external customers—we don't want ex-employees to have bad feelings about us.

Fastest way into my doghouse: Mistakes are to be expected. But if you lie about it or intentionally violate company policy, that's it. Integrity is very important in our operation.

Thanks to the success of our restaurants, we at **Hurricane Grill & Wings** are experiencing phenomenal demand for our franchises nationwide, and the growth of our brand and our business is matching that demand on a daily basis. **Hurricane Grill & Wings**® whose trademark is "Live with Flavor®" is known for its uniquely savory chicken wings, offered with a choice of more than 32 signature sauces and flavors. Menu items are cooked fresh to order with high quality ingredients and zero trans fats. Other menu options range from salads to Certified Angus Burgers and delicious seafood along with a full bar and line-up of craft beers and wine. Here are some of our national accolades:

- Franchise Business Reviews Top Franchisee Satisfaction Award 2013
- *Restaurant Management Magazine* "Top Ten Franchise Deals for 2012"
- Future 50 Award *Restaurant Business Magazine* 2011 and 2012
- *Entrepreneur Magazine*'s Top Franchisees for 2011 and 2012
- 2009 Chairman's Award winner and 2007, 2009, 2011 Festival Favorite
- Winner at the National Buffalo Wing Festival Contest in Buffalo, New York
- #21 on the *Franchise Time Magazine*'s Fast 55 Growth Franchises for 2010
- *Franchise Update Magazine*'s STAR Award winner for 2010
- *USA Today* 10 Great Places for wings
- *Restaurant Business Magazine*'s "Top Twenty Fastest Growing Concepts" 2009 & 2010

The original **Hurricane Grill & Wings** opened in Fort Pierce, Fla., in 1995. There are over 50 locations in eleven states, including Arizona, Florida, Michigan, New York, North Carolina, Minnesota, Maryland, Alabama, Texas and Pennsylvania, with additional restaurants planned nationwide. "The national growth rate **Hurricane Grill & Wings** has experienced is remarkable," said Martin O'Dowd, president of **Hurricane Grill & Wings.** We have set a strategic pace for the brand's growth and together with our stellar business model; **Hurricane Grill & Wings** has been able to increase our average unit volumes to over $1.7 million and an unmatched 3:1 sales to investment ratio." Much of our success is based on the strength of our concept and our business model:

- 3:1 Sales to Investment Ratio – one of the very the best in industry today
- Positive Comp Sales for the past 4 years – up over 8% in 2012
- Enterprise growth rate at 35%+ year after year – now opening 2 -3 restaurants per month nationwide
- Minimal start up with an average of $500K - $600K per store
- Announcement of $10 MM in financing for new and existing franchisees
- 32+ award-winning sauces and rubs with signature chicken, steak, fish, salads and sides made with authentic, all-natural ingredients, also featuring craft beer, wine and full liquor bar

Currently, our family-friendly, island-inspired restaurant has over 50 locations in eleven states and growing nationally. New commitments will open restaurants in 7 new markets including Denver, Colorado, Houston, Dallas, North Dakota and Georgia along with additional units throughout Texas, Minnesota, North Dakota, south/ central & northern Florida, and the Greater New York area. **Hurricane Grill & Wings** now has a total of over 140 commitments nationwide!

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- 3:1 Sales to Investment Ratio
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- $10 Million in financing available

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Draper, who joined V&J in 1994, is a staunch supporter of all V&J's food brands and believes the diversity makes the organization stronger and more nimble. "Each brand operates in a different climate. Burger Kings are in urban markets as well as suburban markets. Pizza Huts are generally in our upstate markets, and Auntie Anne's are in the malls," he says. "Each point of distribution gives us a different sensitivity to our customer base. The diversity in my opinion has been a blessing because when one brand is doing well and another is not, they can help each other."

This U.S. Army veteran, philanthropist, husband, father, and grandfather is also a cheerleader for franchising in general. "It's a great time to be a franchisee. Franchisors are looking for multi-store operators, people with fire in the belly. If you have fire in the belly, a humble desire to serve, and are hospitable in nature, get in now!"

BOTTOM LINE

Annual revenue: $50 million to $90 million

2013 goals: To continue to grow profitably, look for deals, and increase sales.

Growth meter: How do you measure your growth? By sales and profits.

Vision meter: Where do you want to be in 5 years? 10 years? I'd like to double our business in 5 years. In 10, I'd like to possibly consider retiring to consultant work.

How is the economy affecting you, your employees, your customers? It has been difficult because we have been forced to make decisions we would not have made in a more positive environment. The economy has been south since 2008. That's a long time to fight internally. It's affected us, but it's made us stronger. We've told our team members, "Don't let the bad time turn you off. Let it turn you on. When the going gets tough, the tough get going, so let's do our best."

Are you experiencing economic growth or recovery in your market? Yes. In years past, the fast food industry has been the first to recover and first to go down when things are going down. I see us recovering slowly, but surely. I'm optimistic that we've seen the worst.

What did you change or do differently in this economy that you plan to continue doing? In our speaking with team members, we're constantly focusing on positivity. I tell them, "You guys have written a page in history. Few people have gone through this tough economy—it's only the second worst in our country's history—and lived and managed through it. These life skills will be with you the rest of your life." It's a way to be proud and not negative.

How do you forecast for your business in this economy? We used to do our five-year plan once a year. Now we plan every day. We take our national plans and our quarterly plans and dilute them to daily plans. This is how we have to manage the business now.

Is capital getting easier to access? Why/why not? No, not easier. I'm also a bank board member. Banks want to lend money, but they're restricted because they have to be sure they have returns. It's difficult to lend money without a guarantee, and the restaurant industry in general has been a bad investment lately.

Where do you find capital for expansion? If you run your business right, you find it internally. If not, you go out and borrow.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Local banks, yes; private equity, no, not yet. But we'll keep the phone lines open to any large equity groups out there.

What are you doing to take care of your employees? We have incentive programs, bonus programs, and quarterly and annual reviews. We constantly communicate. I call it the "Big C"—did we over-communicate with a capital C?

How are you handling rising employee costs (payroll, healthcare, etc.)? It's evolving. Every day we hear a different take on the new affordable healthcare law. Each of our brands has provided us with experts who have read the law and can anticipate costs, but no one really knows yet. We're also dealing with the hardship of that 2 percent increase in FICA taxes—that's not something we were anticipating. We all understand and appreciate it, but no one knew it would have the cost impact it did.

How do you reward/recognize top-performing employees? In addition to our review process and orientation for retention, we have recognition on our website any time an employee comes up with something unique.

What kind of exit strategy do you have in place? I don't have one. I'm not planning to go anywhere.

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BY DEBBIE SELINSKY

No Turning Back

Former ski coach races to top-earning status in franchising

When Jim Fitlow skis, he goes at it full tilt. In fact, one of his favorite quips is, "Turning is highly overrated."

Now the former ski racing coach and his partner Mike Allen are applying that same "go big or go home" philosophy as multi-brand, multi-unit franchisees for Re-Bath, Floor Coverings International, and HomeStory Doors & More, all in Utah and Colorado.

Fitlow, born in Florida, was raised in Michigan where the ski bug bit him at a young age. He met Allen later, in college at Montana State University. When Fitlow got out of ski race coaching—"I enjoyed it and had some success with that for a few years," he says—he began

PERSONAL

First job: After college, I was a ski racing coach.

Formative influences/events: When I was done with coaching, I knew I liked the area and needed to do something else. My family had always had small businesses going on, so I was influenced by their entrepreneurial spirit.

Key accomplishments: Getting married and having kids. From a business perspective, it was big when we moved beyond the DIY business to building a company. We're still small, but we're not a mom-and-pop operation.

Biggest mistake: Our biggest mistake was probably growing too fast without a well-established infrastructure.

Smartest mistake: Starting the business.

Decision I wish I could do over: I wish I'd focused on cash reserves during our growth phases instead of assuming the run would always be there.

Work week: My role has changed since my partner Mike and I have team members who have been with us long enough to handle their work without constant oversight. So I guess I've moved from a 24/7 work week to a "whatever's needed" work week. I'm also working at home three days a week and working in the office two days.

How do you spend a typical day? I don't deal with fires much anymore. My typical day is a lot on the strategy side, working with franchisors. I'm on some committees and boards so I spend time on that. Then I'm looking at marketing, accounting, and reviewing reports, looking for ways to tweak things for the better.

Favorite fun activities: Skiing, mountain biking, camping, hockey.

Exercise/workout: I started cross-fit a year ago.

Favorite tech toys: I don't like any of them—I'm on them too much.

What are you reading? I'm usually looking at a business book or magazine. The problem with the digital age is that we spend so much time reading all day, the last thing I want to do at night is stare at a screen or book.

Do you have a favorite quote? Turning is overrated (yes, that's a skiing reference).

Best advice you ever got: Say "Yes, dear."

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

What's your passion in business? At this point, it's to make a lot of money. We want to be the highest income Re-Bath franchise in the country instead of the fastest-growing (we've already done that).

How do you balance life and work? If you have a job, you can balance life and work. If you have a business, it's intertwined with your life. You just have to have enough activities that force you away from it—sports or other things that you can't be doing business while you're doing them.

Last vacation: Just got back from a family trip to Michigan and we took a few extra days on a conference.

Person I'd most like to have lunch with: George Carlin.

to look around for something that would keep him in Salt Lake City.

Fitlow and Allen knew a local Re-Bath franchisee, a retired plumber they'd swapped jobs with on occasion. "He decided the franchise was just a little more than he wanted to take on, so he said, 'You guys want to do it?'"

They did, adding it to their existing business activities. "After a year and a half, we realized the potential of the Re-Bath model and partnered up with some Re-Bath guys in Idaho and Spokane," says Fitlow. "We knew the bathroom business was going to continue to grow and we were already spending money to capture customers, so we thought, 'Why not add other products and services?'"

NAME: Jim Fitlow

TITLE: President

COMPANY: Re-Bath of Utah and Colorado, Floor Coverings International of Utah and Colorado, HomeStory Doors of Utah and Colorado

NO. OF UNITS: HomeStory, 4 in Utah, 6 in Colorado; FCI, 5 in Utah, 2 in Colorado; Re-Bath, 1 in Utah, 2 in Colorado

AGE: 42

FAMILY: Wife Vicky, and three little girls

YEARS IN FRANCHISING: 12

YEARS IN CURRENT POSITION: 3

The duo signed their first Re-Bath contract in 2001 and today serve thousands of households. In 2012, Fitlow and Allen were among nine Re-Bath franchises named to *Qualified Remodeler* magazine's Top 500 list of the largest revenue-generating remodeling companies in the U.S.

After concentrating on building their Re-Bath business, in 2011 Fitlow and Allen signed contracts for Floor Coverings International and HomeStory. "Our idea was to create lifetime relationships with our Re-Bath customers, working with them on all other aspects of remodeling in their homes," Fitlow says.

Despite their success to date, juggling three concepts, even in related indus-

MANAGEMENT

Business philosophy: I approach business in two ways: one from a pure roots level with the primary aim of "challenge, enjoy, and win." Our company's philosophy is to acquire customers for life. We used to be a bathroom remodel company. By adding other related brands, our goal became to stay with customers for life while they're remodeling the rest of their home. We do that under the umbrella of our slogan, "Remodeling made easy." Each brand has to have a component that makes it special and easier for consumers than just hiring Joe Contractor off the street, whether it's fast installs, high-quality materials, technology, or the sales process.

Management method or style: I try to let people do what they're supposed to do, and to that end, for the past year and a half I've been working from home more. I've found that I'm more efficient if I'm not around anybody, and they're more efficient when I'm not around. We have people who've been with us for a while, and they're good at what they do. My job is on the back side, looking for ways that may make their work easier and more efficient.

Greatest challenge: Right now as a company, our greatest challenge is consistency in sales. Most of our processes and procedures are fairly deep-rooted in the company. Some days I wake up and see a sales report with a big goose egg, and on another day I see a huge win. One piece of this is process driven, but it's ultimately up to the customer. Greater consistency in sales would bring more predictability to all we do.

How do others describe you? They say I talk a lot.

One thing I'm looking to do better: Complete tasks sometimes.

How I give my team room to innovate and experiment: By working at home three days a week.

How close are you to operations? I've backed off that. Mike deals with day-to-day operations.

What are the two most important things you rely on from your franchisors? I need them to uphold their side of the bargain. And then if they're open, honest, and have our best interests at heart, I'm okay with them.

What I need from vendors: I need them to be on time, every time.

Have you changed your marketing strategy in response to the economy? How? Yes. We are trying to be much more strategic with the marketing dollars as far as where they're going and what they're bringing back.

How is social media affecting your business? For the remodeling industry, social media is where websites were five years ago. It's just gaining traction but it's moving quickly. We need to get ahead of the game on it.

How do you hire and fire? We are trying to hire differently, as far as who we're looking for, than in the past. When we started, my partner was in his 20s and I was in my early 30s, and it was more difficult to hire older people, because they didn't want to work for young punks. Now that we're getting older, we can hire the right people. We also have more experience in the business now, so we hire based on what we've learned over the past 12 years. As far as firing goes, we're bad at it. We don't do it fast, but we do it when needed. We've been changing as the economy changed; team dynamics have changed, and our process is probably changed as well. In a small business (roughly 50 employees), sometimes with people who are single-tasked, it's easier. But when you have people with you for a while who perform tasks across different areas of business, you have to be more strategic, making sure all the roles are finished.

How do you train and retain? A big part of retention is creating a work environment that supports employees, helps to make them successful, and is someplace they enjoy being and working. Training is ongoing throughout the company. Retaining sales people is the biggest challenge.

How do you deal with problem employees? We have a regular HR process to go through. It protects us and the employee, so there are no surprises.

Fastest way into my doghouse: The quickest way to get on my bad side is trying to sneak something past the customer.

tries, is a big job, he says. "We thought with multiple brands, we could maintain similarities in the process flow and run similar time frames and efficiencies. And often, that has been the case. But some of it is confusing because each franchisor has its own operating system. We're running off too many platforms right now. I wish I had one that I could use to talk to the others. It's been a more complex beast than we'd anticipated," Fitlow says.

When the partners started with Re-Bath, Fitlow was selling and Allen was installing until they could add enough people to take that on. "I understand the business aspects of it all, but I'm not sure I realized all the things you need to be expert at when you grow a new business from scratch. It's a little more of a challenge," Fitlow says.

Today, Fitlow is president of their three companies with about 50 employees, and Allen is vice president/operations. "Our relationship works well because we both come in with different strengths—something that is key to any successful partnership," Fitlow says.

> "In 10 years? I'll probably be hiding from three teenage daughters."

In the three years since Fitlow became president, he has backed off from day-to-day operations and has even started working at home three days a week. That has worked well for a couple of reasons. For one, he can often get in a couple of hours skiing before going to the office. Also, "I've learned that I'm more efficient when I'm not around anybody, and that they work more efficiently when I'm not around," he says. "We finally got an office where I had a nice window, and I don't get to enjoy it very much."

Today, at 42, Fitlow is a family man with a wife and three young daughters—all of whom ski. He jokes about the challenges that face him in the future. "I used to say when the teenage years hit, we'd send them to boarding school. We've recently realized how expensive that would be, so now *I* may have to go to boarding school," he jokes.

BOTTOM LINE

Annual revenue: $8 million

2013 goals: $12 million

Growth meter: How do you measure your growth? Now we're measuring how we grow on the bottom line; it used to be on the top line.

Vision meter: Where do you want to be in 5 years? 10 years? In five years, I'd like to have a full team of general managers who have a profit share in the business, and my work week consists of going to reports with them. In 10 years, I don't know. I'll probably be hiding from three teenage daughters.

How is the economy affecting you, your employees, your customers? It's made us better. Our customer base has shrunk, so we knew that if we didn't get much better at what we're doing, the business would be more difficult to come by.

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

What did you change or do differently in this economy that you plan to continue doing? We got lean.

How do you forecast for your business in this economy? It's tough. We look at what we should be able to do with the lead flow we have and try to target off that. Then we try to create additional lead flow without spending a ton of money doing so.

Is capital getting easier to access? Why/why not? No, not at all. Our business models are low-asset models, and the only thing banks want to lend on is assets.

Where do you find capital for expansion? Self-funding.

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

What are you doing to take care of your employees? Keeping the business growing.

How are you handling rising employee costs (payroll, healthcare, etc.)? We make sure that whatever we offer is something we can continue to offer, whether we get busier or slower. Through this downturn in the economy, we've never taken away a benefit or reduced pay. But we have been trying to find good vendors who do a good job managing costs.

How do you reward/recognize top-performing employees? I try to send out company-wide monthly newsletters so all employees in all divisions know what the company is doing and know about standout performances. They know that most of what we do is a team effort, with everybody working toward the same target. We try to have company functions a couple of times a year where we get together in the new office in Salt Lake City. The building used to be a pool and spa place, so there's still an in-ground pool. We had our first pool party there.

What kind of exit strategy do you have in place? I don't see businesses getting sold to the point where somebody can sit back and retire because 10 to 20 years of effort paid off. That just doesn't happen out there, or at least I haven't seen it. So we're mainly trying to get the right people in place to manage the companies into the future. Our outfit is more about continuing to guide and mentor and give them a share when things go well.

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BY KERRY PIPES

Future Certain

Third-grade wish comes true

When Brandon Jones was in the third grade, his teacher asked the class to write about what they wanted to be when they grew up. "Most kids said things like 'Be a policeman or a firefighter,'" says the 33-year-old today. "I wrote 'Own a bar with my dad.'" It may have sounded funny to his teacher, but that's exactly what he went on to do.

Jones grew up in La Porte, Ind., a town of about 22,000. He was a hard-working kid who was throwing newspapers by age 13, earned enough money to buy his own moped at 14, and stayed busy doing various jobs when he wasn't on the athletic field or in the gym. When Jones was still a toddler, his father converted an old house into a small tavern, and it was there that Jones would finally fulfill his third-grade desire.

"The day I turned 21, I went to work with dad in the tavern," he says. That's where he spent the next six years, learning the ropes of the retail food and beverage business. With that under his belt, Jones, then in his late 20s, partnered up with his father to open their first Buffalo Wild Wings restaurant.

"We loved the concept and the busi-

NAME: Brandon Jones

TITLE: Franchisee

COMPANY: Flip Flop Shops, Smashburger, Buffalo Wild Wings

NO. OF UNITS: 6 Buffalo Wild Wing, 2 Smashburger, 1 Flip Flop Shops

AGE: 33

FAMILY: Three kids (two boys, 10 and 7, one girl, 4)

YEARS IN FRANCHISING: 6

YEARS IN CURRENT POSITION: 6

ness model of franchising," says Jones. And they did well, expanding to six locations throughout his home state of Indiana over the next six years. Today, Jones operates those six Buffalo Wild Wings stores, two Smashburgers in Kentucky, and in late 2012 opened his first Flip Flop Shops store in La Porte.

"I've always mainly been interested in the food business," he says. "But when I discovered Flip Flop Shops, I was intrigued by the brand and decided I wanted to give this a try. I thought it was more about the 'experience' than just the basic products; that's how I think of all of my brands."

He says that branching out beyond the restaurant business was not that difficult for him. "The retail environment is actually easier in many ways, because with restaurants you have a lot of moving parts, and that's not the case with my Flip Flop Shop." However, he says, his new shoe store does pose challenges, like making sure he has the right products at the right time. "I have to know what will sell in the Flip Flop Shop, and the brand has been great at providing the perfect recommendations." He does joke that opening a sandal store in Indiana in the winter has made for a challenging first few months.

Jones is always looking ahead, and says he'd love to expand each of his three concepts—or any other brand that might present itself. "If the opportunity is out there, I'm going to find it and make it work."

> **"When I discovered Flip Flop Shops, I was intrigued by the brand. I thought it was more about the 'experience' than just the basic products; that's how I think of all of my brands."**

PERSONAL

First job: Cook at my dad's tavern.

Formative influences/events: My parents and my kids are the most formative influences in my life. I'm fortunate to have some of the best traits of each parent. I'm always learning from my kids as to how they think, learn, and act as they grow. If I don't learn something from one of them almost every day, I don't feel like I'm doing what I should be doing to grow as a person, son, and parent. I would add that my success and opportunities would not be possible without the great partners I have, including: Mike Jones (father), Mark Jones (uncle), Nathan Jones (cousin), Kevin O'Laughlin (family friend), and Bob Kelsey (family friend). Together we make one hell of a team!

Key accomplishments: 1) Top franchisee in all of Buffalo Wild Wings to raise the most money for St. Jude Children's Hospital in 2011 and 2012. 2) Inducted into the National Softball Association in 2011 for many years of sponsorship, support, and playing in the organization. 3) Picture in *Sports Illustrated* in December 2012 for one of my Buffalo Wild Wings locations winning a Secret Shop Program; only two stores of more than 840 Buffalo Wild Wings won this.

Biggest mistake: Not buying into Flip Flop Shops sooner than I did.

Smartest mistake: Buying into Flip Flop Shops when I did.

Decision I wish I could do over: Where do I start? I make a lot of decisions every day, and I make them with the information I have at my disposal. I don't always make the right decisions, but that doesn't slow me down from making my decisions. I think making mistakes and bad decisions are a very important part of life for learning, growing, and gaining knowledge.

Work week: Is there a beginning or an end to a work week? I don't consider it work because I love what I do.

How do you spend a typical day? Multi-tasking at its best: phone, text, email, store visits, and repeat. I go at 100 mph in *all* directions.

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

Exercise/workout: As often as possible.

Favorite tech toys: Phone, laptop, iPad, iPod. How did I ever do it with just a pager so many years ago? Not that I'm old or anything...

What are you reading? Everything I can to better myself as an operator, franchisee, and father.

Do you have a favorite quote? "The person who thinks the world owes him a living is the same person who blames the world for his failures." I can't remember who said it, but it has always stuck with me.

Best advice you ever got: Don't forget where you came from and who you are.

What gets you out of bed in the morning? My iPhone. Ha! On a serious note, I know that each day I wake up I have hundreds of things I need to accomplish before I hit that same pillow again that evening. I love the feeling of accomplishment, therefore the minute I hit the ground in the morning, I do it with urgency to get things done.

What's your passion in business? My passion in business is simple. I love to interact with people.

How do you balance life and work? I really struggle with this. Sometimes I forget to let go of work, or I make myself believe that's not an option. I think we may need to revisit this question in another interview. In the meantime, I will be working on it.

Last vacation: Vacation? What's that? I take several trips to fun places during the year for business. Most of it is networking, but it feels like a vacation because I'm usually a flight away from my everyday workplace.

Person I'd most like to have lunch with: Donald Trump and Mark Cuban. Can you imagine who would control that conversation? I don't think I would get to talk or get a single question in, but it sure would be fun.

"There are so many moving parts that sometimes I forget to stop and listen to the employees who really take care of the business inside the four walls."

MANAGEMENT

Business philosophy: You get out what you put in, as long as what you put in is done with integrity and aligns with your overall worthwhile goals.

Management method or style: Lead by example.

Greatest challenge: Giving the right people my quality time. There are so many moving parts in my everyday schedule that sometimes I forget to stop and listen to the employees who really take care of the business inside the four walls.

How I give my team room to innovate and experiment: I tell my employees that if they have an idea to improve our business, or if they want to try something different, ask themselves two questions: 1) Does it break any of our rules, policies, or procedures? 2) If your idea doesn't go as planned, will it cost the company money or negative publicity? If the answer to those questions is *no*, then go for it and do it the best you can.

How close are you to operations? Can't get any closer or my family will disown me!

What are the two most important things you rely on from your franchisor? I like to think of my franchisors as my partners. I look for my franchisors to work together with their franchisees to make the best decisions for the company as a whole. I think it's very important for franchisors to use their franchisees for their knowledge and expertise. I really believe that when you have franchisees and a franchisor who work together to understand each other's visions, the company as a whole is unstoppable in growth and success.

What I need from vendors: Just a relationship. We just need to understand each other's best interests and work together to maximize both of our goals.

Have you changed your marketing strategy in response to the economy? Not really. I have never been a believer in becoming a "discount house" for any reason. Just execute the best possible customer service standards, and as long as you have a great product or service you will be fine.

How is social media affecting your business? It's definitely something to be on board with. I think it helps tremendously with brand awareness. Plus, it can often be used for little to no cost. That's priceless!!

How do you hire and fire? Hire slooooooowwww, fire *fast*.

How do you train and retain? Coach and develop every day. Praise as often as possible.

How do you deal with problem employees? If I have put in every effort to coach them and bring them up to the company standard and they still aren't getting it, it's time to promote them to a guest or customer.

Fastest way into my doghouse: Lie and lose integrity.

BOTTOM LINE

2013 goals: Open more units and increase sales and profit on existing units.

Growth meter: How do you measure your growth? One store at a time.

Vision meter: Where do you want to be in 5 years? 10 years? Still building brands and creating new relationships.

How is the economy affecting you, your employees, your customers? I'm very pleased with the concepts I'm vested in. I don't think the economy is hurting those concepts as much as others. In Smashburger, we provide our guests with a great product at a decent price. Buffalo Wild Wings provides a great experience and an awesome atmosphere with an affordable menu. I could take the best of both Buffalo Wild Wings and Smashburger and apply it to what Flip Flop Shops offers: a cool atmosphere with great merchandise at an affordable price.

Are you experiencing economic growth or recovery in your market? Knock on wood! We have grown every year and have had positive same-store sales every year, during good times and bad. I think, as long as we execute the personal experience and WOW factors within each of our stores' four walls, we are unstoppable.

What did you change or do differently in this economy that you plan to continue doing? Spend wisely and seek opportunities for growth. There are better deals in a not-so-good economy than in a great economy. I don't wish for the economy to be bad just so we can get good rent factors, etc., but I believe in always finding the positives in any situation.

How do you forecast for your business in this economy? I always forecast a challenge. I think that staying grounded makes you appreciate each accomplishment even more. The mindset of approaching every opportunity as a challenge, in some way, keeps me hungry for working that much harder to attain my goals.

Is capital getting easier to access? Why/why not? Capital is not a challenge for me because the group I am partners with (my father being one) has an impressive debt-to-cash-flow ratio. Let's just say our banks *love* us.

Where do you find capital for expansion? My dad always says "Son, don't ever bleed your business." I've learned over the years that if you want to grow, you reinvest in your business. For many years our companies didn't take dividends, and that has helped provide the capital for growth.

Have you used private equity, local banks, national banks, other institutions? We use both local and national banks.

What kind of exit strategy do you have in place? I'm a few years from planning an exit strategy for myself. Right now I just want to keep growing strong and staying strong. The time and opportunity will come to think about an exit strategy in the future. I just think I have more important things on my plate right now. I need to build a lot more before I have anything to "exit."

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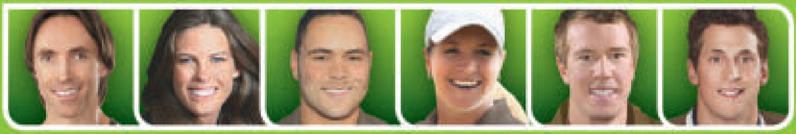

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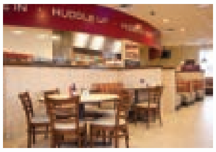

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BY DEBBIE SELINSKY

Franchise Whisperer

Perpetually on the prowl for the next new thing

Lloyd Sugarman—Sugie, to his friends—is something of a "franchise whisperer."

He sniffed out Coldstone Creamery as a concept with great franchise potential years before the couple who started it were ready to grow. And he had a special feeling in his gut the first time he visited a tiny coffee shop in Chicago called Starbucks, but he listened to friends who insisted coffee shops had limited growth potential, and didn't make a move.

But all systems were go in the late 1980s when the self-made businessman

NAME: Lloyd Sugarman

TITLE: I never think of myself in terms of a title.

COMPANY: I have different companies for different groups of stores. My headquarters is in Providence, R.I.

NO. OF UNITS: Johnny Rockets, 17; Original Soupman, 3; Yeh! Yogourt Glace and Café, 2

AGE: Over 50

FAMILY: Wife Rhonda, son Jason (who works in the business), and daughter, Dana Sugarman Johnson

YEARS IN FRANCHISING: More than 25

YEARS IN CURRENT POSITION: Hard to say. I am the only person ever exposed to Johnny Rockets as its first original franchise partner in 1986, then as its first franchisee in 1987, then as a member of the corporate team, then as a franchisee again and back with the company, and now back as a franchisee.

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*Sandelman and Associates, Quick Track FY2012 & Technomic's 2012 Consumer Brand Metrics Program

**Consumer Brand Metrics Program, Technomic Executive Summary, 2012 Chains To Watch.

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who'd battled ADHD as a youth, got a tip from a 9-year-old girl on a flight to California. When he asked her father about new restaurants in the LA area, she piped up, "There's that new place in Melrose—Johnny Rockets. It's a little hamburger and malt shop."

Sugarman liked the name so much that he rented a car and drove to Melrose Avenue in Los Angeles, near West Hollywood. "There were long lines outside, including some familiar faces, like Kiefer Sutherland, whom I ended up sitting next to at the counter once we got our chance at the 20 stools. I ordered everything on the menu except the egg salad—I don't like egg salad. I loved all the food and the place with its red-and-chrome décor," he says. "I was off the charts with excitement."

He learned from the duty manager that Ronn Teitelbaum, an award-winning clothier, conceptualized and opened the Americana-type diner and asked for Teitelbaum's phone number. "She said, 'I'm sorry I can't give it to you. So many

> **"There were long lines outside, including some familiar faces, like Kiefer Sutherland, whom I ended up sitting next to at the counter once."**

PERSONAL

First job: I was an ADHD person before anybody understood what that meant, so school was difficult for me. I started working at an early age, first at a little roast beef place, Walt's Roast Beef, and then at Sax's Steak Sandwich, a chain of 20 stores my father founded.

Formative influences/events: I was influenced by the work ethic and entrepreneurial spirit of my father, who died when I was a kid. I'd been watching QSRs in operation for years, and also became fascinated by franchising while watching the original Burger King franchisee in Rhode Island get started.

Key accomplishments: After having a hard time in school, those early career successes gave me the confidence I needed to show that ADHD has nothing to do with creativity and intelligence. At age 18, I got my real estate broker's license and started successfully selling houses in Mansfield, Mass. Then I read in *Rolling Stone* about two kids silk screening rock'n'roll images on T-shirts. I contacted artist Charles White III, who'd actually designed album covers for rock stars, and wound up, with his permission, putting his photos onto the back of T-shirts through a process called sublimation (unique at the time). I had the hottest T-shirt line in the country for a year, but when everybody else began to produce shirts at lower prices, I used the money I'd made to buy an old car wash that I turned into a successful car wash for vans and trucks—and this was before we heard much about SUVs.

Biggest mistake: Probably when I sold my five Johnny Rockets California stores—the five highest-volume stores in the company—to venture capitalists in 1995. I was so excited about growing Johnny Rockets and ultimately going public and having stock in the company. The mistake I made was in not understanding the influence on direction that a CEO would have when he became involved in the company. There were a few great leaders that I learned a lot from—like Johnny Rockets founder Ronn Teitelbaum and board member Mickey Drexler—but there was a revolving door of CEOs that, in my opinion, didn't "get" Johnny Rockets. Because of that, we never achieved going public while I was there.

Smartest mistake: In our business, we're always taking risks and making a lot of small mistakes along the way. I think more in terms of missed opportunities and life lessons, rather than in mistakes.

Decision I wish I could do over: Keeping my five Johnny Rockets stores in 1995 as opposed to selling them back to the company, or at least keeping some of them. That would have been better for me and my family. I still would have had control over my destiny instead of being an employee. I redesigned and reworked the Johnny Rockets look and I'm proud of that, but ultimately, I had to start all over when I repurchased my stores in San Francisco.

Work week: I don't have a "work week." I don't have hours. I just have a lot of stuff to do.

How do you spend a typical day? The one or two things I absolutely do every day would be talking to our comptroller and checking all the balances to see what came in and what didn't. Everything else is about the unexpected things that constantly come up.

Favorite fun activities: I have a small speedboat and I like driving European sports cars.

Exercise/workout: I do 40 pushups every few days. I walk quickly and I walk a lot.

Favorite tech toys: iPads, iPhones, smartphones.

What are you reading? Since I am ADHD, I prefer audio books and publications.

Do you have a favorite quote? "You go, you get. You don't go, you don't get."

Best advice you ever got: I've been told to "stay focused," which for someone like me is always good advice. I've also been told to go with my gut and my intuition.

What gets you out of bed in the morning? I'm hungry—and I have stuff to do.

What's your passion in business? I really do like searching for new concepts and I never stop doing that. This is also a most challenging time for Johnny Rockets and companies like us because we have to identify our core values and where we fit in the market.

How do you balance life and work? My wife and kids and their kids are always most important, but life and work are always entwined.

Last vacation: When I go on trips I'm always looking forward to seeing and finding things I haven't seen. It's about my passion for emerging concepts. I'm not sure my family would consider this exactly a vacation. We relax most when we go down to Florida.

Person I'd most like to have lunch with: Starbucks Chairman and CEO Howard Schultz.


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people have been trying to get in touch with him about this place, but I'll give him your name and number. Sometimes he comes by,'" Sugarman recalls.

Sugarman said he'd wait. "But I don't know for sure if and when he's coming," the manager protested. Sugarman said, "That's all right. I'll just wait, if you don't mind. I'm enjoying myself." Seeing that he had no intention of leaving, she promised Sugarman that she would make sure Teitelbaum called him first thing the next morning.

The next morning Teitelbaum did call, and Sugarman impressed him with his detailed comments and understanding of the Johnny Rockets concept. "I said, 'I'm not good enough to copy what you've done, but I want to be part of what you do.'"

Teitelbaum looked into Sugarman's financial situation and told him, "You don't have enough money to build your own Johnny Rockets, but you've got half the money. Go to the Bay Area and build Johnny Rockets on Chestnut Street with us as your partner." So Sugarman, without hesitation, moved to San Francisco to be Teitelbaum's partner in a new Johnny Rockets restaurant.

> **"I said, 'I'm not good enough to copy what you've done, but I want to be part of what you do.'"**

In 1987, Sugarman became Johnny Rockets' first franchisee, building five top-revenue locations in San Francisco. In 1989, he traded his stores for 10 percent of Johnny Rockets and worked as vice president of operations and franchise development with his new mentor, Teitelbaum.

By 1991, Sugarman wanted to be back in the stores, so he kept his ownership in the company and bought back his restaurants in San Francisco. He also built other Johnny Rockets, including one in Santa Monica with a partner. In 1995, Johnny Rockets was sold, and he traded in his stores and moved to corporate as senior vice president of development.

Selling his restaurants this time was

MANAGEMENT

Business philosophy: We're only as good as the people we have around us. I always try to allow the managers to run the business as if it's their own, and then we sit down and talk about it. If they don't make decisions, they can't make a mistake or a win. If a person doesn't care, you're in trouble. I don't worry so much about intelligence, I just highly value trust and honesty. Trust takes years to develop.

Management method or style: When I go into any of our places, I find things that need to be corrected. Before I meet with the manager, I like to talk to servers and cooks first since they're in front of the guests every day. I value their honest feedback as much as the manager's since a manager might tend to say what he knows I'd like to hear.

Greatest challenge: Right now, business is challenged in general. We're trying to stay relevant and change what needs to be changed while still going into different concepts.

How do others describe you? I'm not sure. I think I empower people who are qualified. My Mall of America general manager has been with me for 10 years and I trust him to make the right decisions.

One thing I'm looking to do better: I like to remember everyone's name, and I'd like to know our people better.

How I give my team room to innovate and experiment: I'm open to all ideas and concepts and I encourage discussion.

How close are you to operations? Pretty close. I'm aware of most things going on all the time.

What are the two most important things you rely on from your franchisor? I always hope they're making their best efforts in purchasing and getting us the highest-quality products at the best price. I'd also like to rely on them more for PR and marketing support.

What I need from vendors: Honesty and a constant striving.

Have you changed your marketing strategy in response to the economy? How? You have to be careful in changing strategy. For example, discounting and couponing is a difficult road to travel because you don't want to become reliant on coupons to drive the business. However, it does work from time to time.

How is social media affecting your business? I don't think we see the effect on a daily basis. Some companies know how to push and strive in that world, and they're the ones who captivate. A great social media company that understands how it works can create cult followings. I think it's difficult for older brands, like Johnny Rockets, and that we'll have more luck with the Original Soupman.

How do you hire and fire? We hire by looking for what any good operator looks for: smiles and personality. We can teach and train, but you can't teach personality and positive energy. As for firing, we promote them to guest.

How do you train and retain? We train on the store level, and training is part of every job, every day. In retention, acknowledgement and appreciation are important, and pay is important.

How do you deal with problem employees? Put them on the user program: promote them to guest.

Fastest way into my doghouse: Being disrespectful with those they work with, leaving their responsibilities to others, and not taking their jobs seriously.

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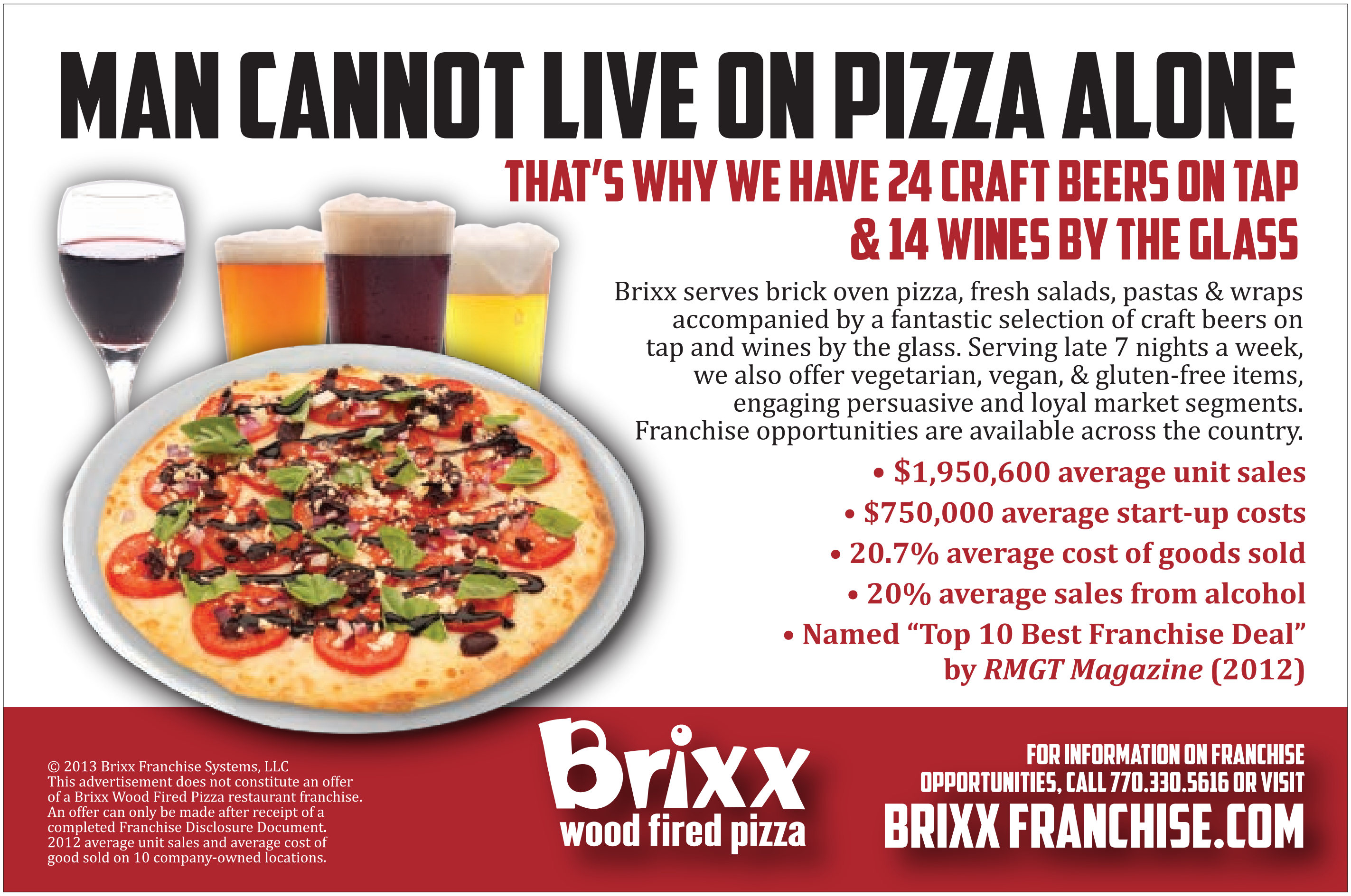

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probably a mistake, he says in retrospect. "I no longer had control of my destiny," he says. With the revolving-door CEOs not taking Johnny Rockets in the direction of a public offering, he decided again to start over as a franchisee. In 1998, he and his family moved to Providence, R.I., where he grew up, to open more Johnny Rockets and consider other concepts.

When Teitelbaum died in 2000 at the age of 61, Sugarman was bereft. "Ronn was an amazing influence in my life. He was a great guy, an influential partner and mentor. The most intelligent people you meet in life have the ability to simplify things—even in franchising. Ronn had that," he says.

Throughout his association with Johnny Rockets, Sugarman has continued to be an innovator, using his own money a couple of years ago to create a new, updated design prototype for the chain, the first change in 25 years. Early resistance from corporate and other franchisees abated when the company tested the prototype in a couple of company stores, along with Sugarman's stores. The experiment was a success, and many Johnny Rockets are adopting elements of the new design.

"Don't ever chase others—you'll always be looking at their butts."

Today, Sugarman, with his son Jason, owns 17 Johnny Rockets in Rhode Island, Minnesota, California, New York, Connecticut, Pennsylvania, and Massachusetts, as well as 3 Original Soupman locations, and 2 Yeh! Yogourt Glace and Café units in Montreal. He also has a couple of new concepts brewing that he's not yet ready to talk about yet.

His favorite activity remains searching out the newest, most exciting trends and concepts, wherever that takes him. "There's a saying: You go, you get. You don't go, you don't get," he says. "I've always gone after things whether it was to the New York Trade Show to do rock'n'roll T-shirts, to Massachusetts where I got my real estate license at 18, or to California where I found Johnny Rockets."

Sugarman acknowledges that his way of doing things may appear a little quirky to those who don't know him well. One of his favorite sayings is, "Don't ever chase others—you'll always be looking at their butts." MUF

BOTTOM LINE

Annual revenue: $40 million

2013 goals: To refresh and go forward with the stores we have and to look for new opportunities. We're getting involved in several new brands and are excited about it. I can't announce it just yet.

Growth meter: How do you measure your growth? We're driven by the opportunity for locations that become available and make sense. If you can tell me how many great locations I can get, I'll tell you how many stores I will open.

Vision meter: Where do you want to be in 5 years? 10 years? I will be doing the same as I am now. I'm not looking to be anywhere different, except for growing more programs.

How is the economy affecting you, your employees, your customers? The same way it affects everyone: costs go up, you have to maintain the same price structure in selling, and competition is more of a challenge. In general, we're more affected by price increases than the amount of business we're doing.

Are you experiencing economic growth or recovery in your market? Every business has its own answer. Every location has its own answer. For example, a street that becomes more trendy with more bars and more night life may suddenly be a good location, even if the economy is still bad.

What did you change or do differently in this economy that you plan to continue doing? We're still doing the same things.

Is capital getting easier to access? Why/why not? Yes. The availability of good interest rates for those who can borrow is a great advantage. Depreciation has also helped.

Where do you find capital for expansion? From private investors to banks to self-funding.

Have you used private equity, local banks, national banks, other institutions? Private equity, banks, self-funding.

What are you doing to take care of your employees? In a good environment, employees do a great job taking care of themselves. We give them the opportunity, and they're taking care of business and doing a good job.

How are you handling rising employee costs (payroll, healthcare, etc.)? Healthcare is going to be big for all in the industry. The cost will be a learning experience. I'm in several states, so it's difficult to find all the answers.

How do you reward/recognize top-performing employees? Stores have Employee of the Month awards. The GM of their stores should be the one rewarding people. We haven't done annual events because our units are so spread out.

What kind of exit strategy do you have in place? I don't know when my life will be over. When I do, I'll let you know.

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MULTI-BRAND

Reconnecting with Ricky Warman

BY KERRY PIPES

Triple Player

Veteran Papa John's franchisee expands his brands

The last time we spoke with Ricky Warman, in 2009, he was pouring his blood, sweat, and tears into successfully operating 42 Papa John's units in Florida. The former Prudential Securities investment manager had left the corporate life behind in the early 1990s for the rough-and-tumble world of franchising. He liked what he found there, and he was good at it.

Early in his franchising career, before finding his real rhythm with Papa John's, he spent time with brands including Jenny Craig and Schlotzsky's. Papa John's turned out to be a good fit for Warman, and he eventually grew to 53 locations in various locales throughout Florida. Over the past four years, however, he sold off all the units outside his core areas of Miami, Dade, and Broward counties and redirected his focus to the remaining 31 units.

"I like to be near the stores and be able to concentrate on doing things really well right here in my own backyard," he says. But with his Papa John's territory now maxed out, and his desire to grow propelling him, he's turned his attention to additional brands.

"That's one thing I've learned from attending the Multi-Unit Franchising

NAME: Ricky Warman

TITLE: CEO

COMPANY: Pizzerias, LLC

NO. OF UNITS: Papa John's, 31; Genghis Grill, 2; Homewatch CareGivers, 1

AGE: 48

FAMILY: Married 22 years, with twin 18-year-old daughters

YEARS IN FRANCHISING: 22

YEARS IN CURRENT POSITION: 9


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"The secret to success is to make a common thing, uncommonly well."

PERSONAL

First job: Investment broker at Prudential Securities.

Formative influences/events: My parents always told me to do whatever I'm comfortable doing, but do it with passion.

Key accomplishments: Working hard so that my daughters can go to the college of their choice.

Biggest mistake: Growing the Papa John's business in 2006 at the beginning of the real estate and economic crisis. I was building a business in an area that was dependent on the growth of homes. I went out and did stores in other, smaller areas in Florida and they were all hit really hard with the economic and real estate turmoil, and the growth didn't happen.

Smartest mistake: Constantly taking chances in business. Some chances work and some don't. But as long as you come out ahead and don't hurt anyone along the way, it is a smart mistake.

Work week: I try to visit stores every week. We have 850 employees and I'm always very much available and open to them.

How do you spend a typical day? I go to the office after I exercise. I look at the sales and compare them against last year for all of our restaurants. I look for the percentage of orders, and all the details: food, labor costs, and so on. I analyze data for all the stores and then I get in touch with the people who report to me. I get briefed on what we are doing that day, go to meetings, and participate in several conference calls. I visit the restaurants as frequently as I can. I like to talk to employees and customers.

Favorite fun activities: Playing lots of tennis.

Exercise/workout: Playing tennis with a coach so I can be pushed till I am really tired.

Favorite tech toys: iPhone, iPad.

What are you reading? Magazines, all kinds.

Do you have a favorite quote? "The secret to success is to make a common thing, uncommonly well."

Best advice you ever got: Be patient and think things through whenever possible.

What gets you out of bed in the morning? I love the work I do.

What's your passion in business? To be successful and to see everyone on my team grow and be successful as well. I am involved in businesses where the customer wants and desires my product. It is a good position to be in.

How do you balance life and work? Both my wife and I work very hard 6 days a week, and we both make sure we spend time together on a daily basis. We see each other during the day for a few minutes and we almost always eat dinner together, even if it is late. Our kids are away in college and we talk to them daily and visit them often. We are a very close family, so I also constantly talk to and see my dad, brothers, and sister and their families.

Last vacation: A cruise with all my extended family in the Caribbean.

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

MANAGEMENT

Business philosophy: In running a multi-unit business, whether it's the same company or different restaurants, you have to be very organized and able to give clear responsibilities to everyone and expect everyone to implement them. The team needs to respond in the same manner with their people. I believe I've created a culture that does that very well. Delegating is crucial so you can have good time management. Accountability is then easily measured.

Management method or style: I have a list of things I want to accomplish in a day. I delegate to the appropriate people depending on what task it is. I follow up by the end of the day, the following day, or the week.

Greatest challenge: The restaurant business has many challenges, as other businesses do. However, in this business, it all starts all over again with every customer, as they expect and rightfully deserve, a perfect experience no matter what challenges we have in the restaurant. So whether employees show up to work or not, we have to make it smooth and perfect for them.

How do others describe you? As very fair and available to reach in person.

One thing I'm looking to do better: I need to become stricter.

How I give my team room to innovate and experiment: My restaurant managers run their restaurant as if it was theirs. We share the full income statement so that they can see how everything they do benefits and/or affects the business. This way, they come up with suggestions as to how they can help the business do better.

How close are you to operations? I am very close to my operations. I am at work every day.

What are the two most important things you rely on from your franchisor? Advertising and quality of the food.

What I need from vendors: Consistency delivering the contracted product.

Have you changed your marketing strategy in response to the economy? I have not, but the franchisor has at a national level. That, in turn, changes what I do locally.

How is social media affecting your business? It is mostly very good, as we have the best product in the market and word of mouth says so.

How do you hire and fire? That I don't do personally. I have human resources people and my managers are in charge of their own people. Fortunately, I've been able to do it right the first time, and I don't have many changes. I've had the same management people for the last five years, and right below them for seven years.

How do you train and retain? We have a training program run by the vice president of operations. We are constantly training.

How do you deal with problem employees? Lots of additional training, writing them up, and measuring their improvement. If they don't improve, we need to hire those who do want to follow our team culture.

Fastest way into my doghouse: Someone's lack of common sense.

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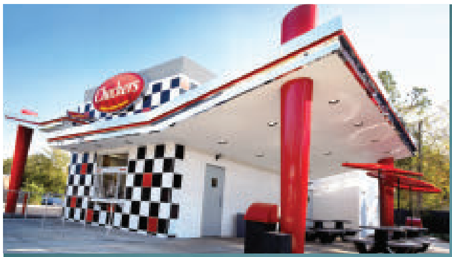

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Checkers has redefined itself to provide more revenue generating programs than ever before. Our new restaurant prototype is one of the recent updates we've made to bring value to our guests and franchisees.

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- Improved drive-thru experience – fast, easy, accurate
- Sales to Investment Ratio 1.8:1
- Redesigned kitchen provides operational efficiency
- Iconic brand features remain – stainless steel band, checkerboard accents, red umbrellas and black, red and white color scheme

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Conference," he says. "There are so many other good franchise opportunities out there that I have learned about."

His inquisitive nature led him straight to Genghis Grill, the build your own bowl stir-fry concept. "I talked to their representatives, and I knew some other Papa John's franchisees who had tried the Genghis Grill brand and liked it." So he joined in on the action, and last December opened his first Genghis Grill. He's since added a second.

"I'm very comfortable with Genghis Grill, it fits into my business. I already knew how to do fast food, and it has been similar doing fast casual," he says. He says the pizza business has always been resilient, and he expects Genghis Grill to be another home run for his organization.

There's been one more new wrinkle in his operation since 2009. Together with his wife Sarit, he's opened a South Florida territory for Homewatch CareGivers.

> "One thing I've learned from attending the Multi-Unit Franchising Conference is are so many other good franchise opportunities out there."

Thanks to an aging U.S. population, the home care market is booming—a fact that hasn't been lost on Warman, who opened his Homewatch territory in late 2012. "I know how franchising works, and my wife has had experience in the past of taking care of family members," he says. "So we believe it's a natural fit."

Warman says his three brands are run as independent companies, all under one umbrella. "I have good people in place that I trust to make things run smoothly," he says. He oversees it all and still likes to be actively involved in the day-to-day operation. He's also proud to keep an open-door policy for any of his 850 employees.

So what's next for him? Warman says he has plans to continue to grow and sees himself adding more restaurant brands during the next five years. "I want to expand and become a bigger restaurant organization," he says.

Get ready, South Florida!

BOTTOM LINE

Annual revenue: NA

2013 goals: Get both new restaurants on a profitable growth pattern.

Growth meter: How do you measure your growth? Growing net income and thus profitability.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, I want to double revenues and profits.

How is the economy affecting you, your employees, your customers? All costs in my operation are higher, and it is very hard to increase prices.

Are you experiencing economic growth or recovery in your market? Yes!

What did you change or do differently in this economy that you plan to continue doing? Concentrate even harder on exceptional customer service.

How do you forecast for your business in this economy? As long as you give good value, exceptional customer service, and a great product, the customers will continue getting your product.

Is capital getting easier to access? Why/why not? Yes. Banks are more confident to lend. It is still not great though for those whose businesses are not strong and healthy.

Where do you find capital for expansion? Private investors.

Have you used private equity, local banks, national banks, other institutions? Why/why not? No. I prefer private investors.

What are you doing to take care of your employees? Treat them as part of a team and constantly train them.

How are you handling rising employee costs (payroll, healthcare, etc.)? It is very hard to deal with all the rising costs that we are incurring in the restaurant business. It is taking a much bigger chunk of my profits.

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

What kind of exit strategy do you have in place? By maintaining a positive EBITDA, the business is always interesting to a buyer who is looking for positive cash flow. One never knows when the right moment comes to sell, but you always have to be ready for it.

> "One never knows when the right moment comes to sell, but you always have to be ready for it."

2013 MULTI-BRAND 50

1	**NPC INTERNATIONAL INC.**	**1,158**
	PIZZA HUT	1,153
	KFC	3
	KFC/PIZZA HUT	1
	PIZZA HUT/TACO BELL	1

2	**TARGET CORP.**	**1,147**
	PIZZA HUT	1,142
	COLD STONE CREAMERY	2
	JAMBA JUICE	2
	KFC/PIZZA HUT	1

3	**HARMAN MANAGEMENT CORP.**	**466**
	KFC	275
	KFC/A&W	100
	KFC/TACO BELL	39
	A&W	23
	LJS/KFC	19
	PIZZA HUT	4
	LJS/A&W	3
	KFC/PIZZA HUT	2
	LONG JOHN SILVER'S	1

4	**HMSHOST**	**445**
	BURGER KING	86
	QUIZNOS	52
	SBARRO	45
	CINNABON	39
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	37
	PIZZA HUT	32
	GREAT AMERICAN BAGEL	27
	WOLFGANG PUCK EXPRESS	21
	NATHAN'S FAMOUS	20
	POPEYES LOUISIANA KITCHEN	15
	FAMOUS FAMIGLIA	11
	JOHNNY ROCKETS	9
	GREAT STEAK & POTATO COMPANY	7
	PINKBERRY	5
	CHICK-FIL-A	3
	EINSTEIN BROS. BAGELS	3
	SALSARITA'S	3
	YEUNG'S LOTUS EXPRESS	3
	BAJA FRESH	2
	DUNN BROS COFFEE	2
	HAAGEN-DAZS	2
	KELLY'S CAJUN GRILL	2
	LA SALSA	2
	MOE'S SOUTHWEST GRILL	2
	SUBWAY	2
	BLIMPIE	1
	BLUE COAST BURRITO	1
	BRUEGGER'S	1
	DICKEY'S BARBECUE PIT	1
	HOWARD JOHNSON	1
	LA QUINTA INN	1
	NOBLE ROMAN PIZZA	1
	QDOBA MEXICAN GRILL	1
	RANCH 1/RANCH *1	1
	SONNY BRYAN'S SMOKEHOUSE	1
	THE COUNTER	1
	TONY ROMA'S PIZZA	1
	VILLA PIZZA	1

5	**ARAMARK**	**435**
	CHICK-FIL-A	90
	EINSTEIN BROS. BAGELS	88
	QUIZNOS	49
	SUBWAY	35
	PIZZA HUT	34
	PAPA JOHN'S PIZZA	29
	JAMBA JUICE	16
	PANDA EXPRESS	16
	SBARRO	10
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	9
	THE EXTREME PITA	9
	MOE'S SOUTHWEST GRILL	6
	MCALISTER'S DELI	4
	BLIMPIE	3
	DUNKIN' DONUTS	3
	PIZZA FUSION	3
	RAISING CANE'S CHICKEN FINGERS	3
	TIM HORTONS	3
	BEN & JERRY'S	2
	COSI	2
	IHOP	2
	NATHAN'S FAMOUS	2
	PIZZA HUT/TACO BELL	2
	SEATTLE'S BEST COFFEE	2
	A&W	1
	BEEF 'O' BRADY'S FAMILY SPORTS PUB	1
	CARL'S JR.	1
	COLD STONE CREAMERY	1
	DENNY'S	1
	ERBERT & GERBERT'S SUBS & CLUBS	1
	LONG JOHN SILVER'S	1
	MOOYAH BURGERS & FRIES	1
	NOBLE ROMAN PIZZA	1
	POPEYES LOUISIANA KITCHEN	1
	ROUND TABLE PIZZA	1
	TOGO'S	1
	WENDY'S	1

6	**ARMY & AIR FORCE EXCHANGE SERVICES**	**404**
	BURGER KING	128
	CHARLEY'S GRILLED SUBS	84
	SUBWAY	55
	POPEYES LOUISIANA KITCHEN	40
	EINSTEIN BROS. BAGELS	15
	CINNABON	14
	CHURCH'S CHICKEN	13
	TACO JOHN'S	13
	BLIMPIE	11
	GODFATHER'S PIZZA	11
	PIZZA HUT	9
	CAPTAIN D'S	7
	ARBY'S	3
	A&W	1

7	**SUN HOLDINGS LLC**	**398**
	BURGER KING	172
	POPEYES LOUISIANA KITCHEN	73
	ARBY'S	52
	CICI'S PIZZA	49
	GOLDEN CORRAL	33
	T-MOBILE	12
	DEL TACO	7

8	**SODEXO INC.**	**356**
	EINSTEIN BROS. BAGELS	68
	PIZZA HUT	54
	CHICK-FIL-A	48
	WOW CAFE & WINGERY	42
	SUBWAY	19
	QUIZNOS	15
	BURGER KING	14
	CHESTER'S	10
	JAMBA JUICE	10
	BLIMPIE	7
	NRGIZE LIFESTYLE CAFE	7
	HOT STUFF FOOD SYSTEMS	6
	BAJA FRESH	5
	DENNY'S	5
	SBARRO	5
	TIM HORTONS	5
	A&W	4
	GODFATHER'S PIZZA	4
	PAPA JOHN'S PIZZA	4
	SEATTLE'S BEST COFFEE	4
	MOE'S SOUTHWEST GRILL	3
	NATHAN'S FAMOUS	3
	PIZZA HUT/TACO BELL	3
	AUNTIE ANNE'S	2
	MCALISTER'S DELI	2
	PJ'S COFFEE OF NEW ORLEANS	2
	BLUE COAST BURRITO	1
	CARL'S JR.	1
	CARVEL	1
	DAIRY QUEEN/ORANGE JULIUS	1
	ERBERT & GERBERT'S SUBS & CLUBS	1

9	**BODDIE-NOELL ENTERPRISES INC.**	**306**
	HARDEE'S	301
	MOE'S SOUTHWEST GRILL	5

10	**STRATEGIC RESTAURANTS ACQUISITION CORP.**	**294**
	BURGER KING	293
	T.G.I. FRIDAY'S	1

11	**ADF COMPANIES**	**287**
	PIZZA HUT	285
	KFC/PIZZA HUT	1
	PIZZA HUT/TACO BELL	1

12	**PILOT TRAVEL CENTERS LLC**	**281**
	SUBWAY	168
	WENDY'S	50
	ARBY'S	39
	CINNABON	10
	PIZZA HUT	5
	HOT STUFF FOOD SYSTEMS	4
	CARVEL	3
	CHESTER'S	2

13	**WILCOHESS LLC**	**271**
	DUNKIN' DONUTS	232
	WENDY'S	27
	SUBWAY	7
	ARBY'S	3
	GODFATHER'S PIZZA	2

14	**KAZI MANAGEMENT**	**259**
	KFC	177
	BURGER KING	25
	KFC/TACO BELL	17
	KFC/PIZZA HUT	10
	LJS/KFC	9
	TACO BELL	9
	KFC/A&W	8
	PIZZA HUT	4

15	**MUY BRANDS LLC**	**228**
	PIZZA HUT	160
	LONG JOHN SILVER'S	30
	LJS/A&W	17
	TACO BELL	14
	KFC/TACO BELL	4


Edible Arrangements
OPEN

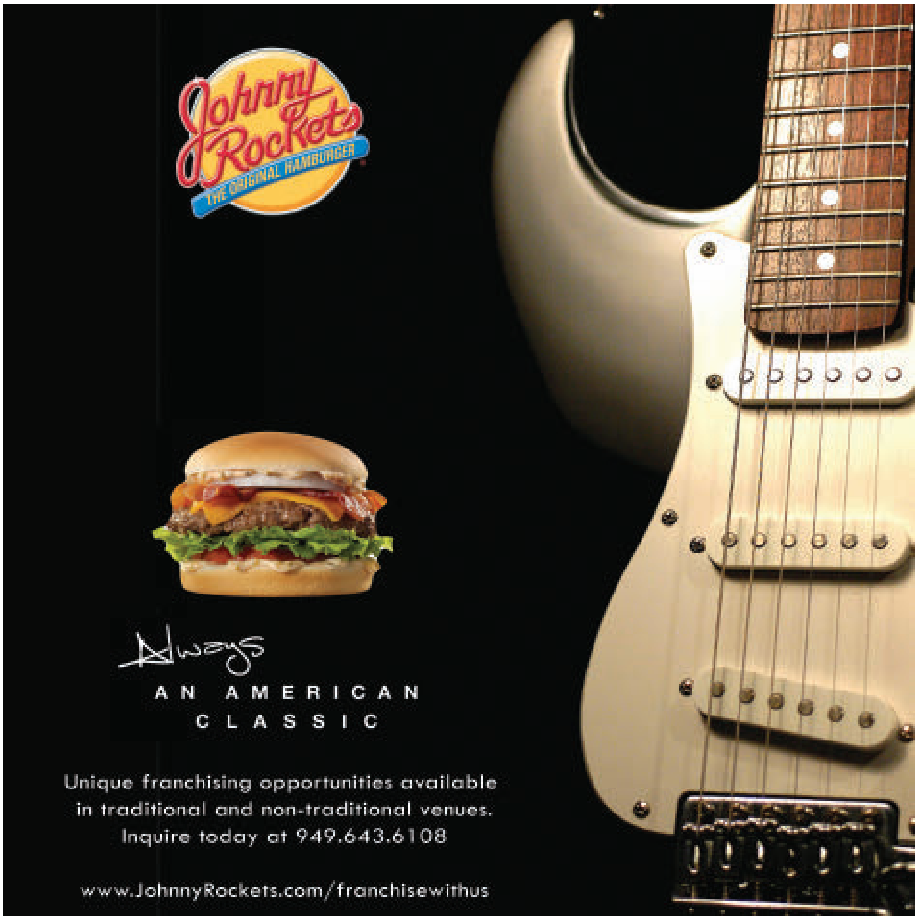
	LJS/KFC	2
	LJS/TACO BELL	1
16	**LOVES TRAVEL STOPS & COUNTRY STORES**	**219**
	SUBWAY	130
	ARBY'S	44
	CHESTER'S	30
	GODFATHER'S PIZZA	15
17	**JRN INC.**	**207**
	KFC	184
	KFC/TACO BELL	15
	LJS/KFC	7
	PIZZA HUT	1
18	**K-MAC ENTERPRISES INC.**	**202**
	TACO BELL	175
	KFC/TACO BELL	22
	LJS/TACO BELL	2
	PIZZA HUT	2
	LJS/KFC	1
19	**BORDER FOODS INC.**	**192**
	TACO BELL	95
	PIZZA HUT	82
	KFC	4
	LJS/TACO BELL	4
	CHURCH'S CHICKEN	3
	KFC/TACO BELL	2
	KFC/PIZZA HUT	1
	PIZZA HUT/TACO BELL	1
20	**TACALA LLC**	**190**
	TACO BELL	186
	KFC/TACO BELL	2
	LJS/TACO BELL	2
21	**BR ASSOCIATES INC./SIDAL INC.**	**188**
	LONG JOHN SILVER'S	104
	WENDY'S	35
	RALLY'S	21
	DENNY'S	19
	GRANDY'S	9
22	**THE PANTRY INC.**	**177**
	SUBWAY	150
	QUIZNOS	9
	CHESTER'S	5
	DAIRY QUEEN/ORANGE JULIUS	3
	MR. PAYROLL	3
	CHURCH'S CHICKEN	2
	DQ GRILL & CHILL/DAIRY QUEEN GRILL & CHILL	2
	BOJANGLES'	1
	DAIRY QUEEN LIMITED BRAZIER	1
	HOT STUFF FOOD SYSTEMS	1
23	**BRIDGEMAN FOODS/ERJ DINING**	**167**
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	124
	WENDY'S	43
24	**TA OPERATING LLC**	**163**
	POPEYES LOUISIANA KITCHEN	47
	SUBWAY	42
	PIZZA HUT	35
	BURGER KING	28
	PIZZA HUT/TACO BELL	8
	KNIGHTS INN	1
	QUIZNOS	1
	RODEWAY INN	1
25	**QUALITY DINING INC.**	**162**
	BURGER KING	113
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	49
26	**COMPASS GROUP USA INC.**	**161**
	PAPA JOHN'S PIZZA	35
	QUIZNOS	19
	EINSTEIN BROS. BAGELS	15
	SUBWAY	15
	PIZZA HUT	11
	BLIMPIE	9
	AU BON PAIN	8
	WENDY'S	7
	JAMBA JUICE	6
	SBARRO	6
	NATHAN'S FAMOUS	5
	DENNY'S	4
	TIM HORTONS	4
	BURGER KING	3
	PANDA EXPRESS	3
	PINKBERRY	3
	BOJANGLES'	1
	CHICK-FIL-A	1
	DUNKIN' DONUTS	1
	HAAGEN-DAZS	1
	MANCHU WOK	1
	MOE'S SOUTHWEST GRILL	1
	NOBLE ROMAN PIZZA	1
	WOW CAFE & WINGERY	1
27	**PALO ALTO INC.**	**158**
	PIZZA HUT	74
	TACO BELL	39
	PIZZA HUT/TACO BELL	19
	KFC	17
	KFC/TACO BELL	6
	LJS/TACO BELL	3
28	**CEDAR ENTERPRISES**	**153**
	WENDY'S	150
	T.G.I. FRIDAY'S	2
	BURGER KING	1
29	**RESTAURANT MANAGEMENT COMPANY OF WICHITA**	**137**
	PIZZA HUT	132
	KFC	5
30	**CHARTER FOODS INC.**	**133**
	LONG JOHN SILVER'S	58
	TACO BELL	52
	LJS/A&W	18
	KFC/TACO BELL	2
	LJS/TACO BELL	1
	PIZZA HUT	1
	PIZZA HUT/TACO BELL	1
31	**VALENTI MANAGEMENT LLC**	**130**
	WENDY'S	112
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	18
32	**RLJ LODGING TRUST**	**125**
	COURTYARD BY MARRIOTT	34
	RESIDENCE INN BY MARRIOTT	30
	FAIRFIELD INN	14
	SPRINGHILL SUITES	10
	HAMPTON INNS	8
	HILTON GARDEN INN	8
	HYATT SUMMERFIELD SUITES	6
	EMBASSY SUITES HOTELS	4
	RENAISSANCE HOTELS & RESORTS	3
	DOUBLETREE HOTELS/DOUBLETREE GUEST SUITES	2
	HILTON SUITES	2
	HOLIDAY INN & SUITES (EXPRESS)	2
	HOLIDAY INN & SUITES	1
	SLEEP INN/SLEEP INN & SUITES	1
33	**APEX RESTAURANT MANAGEMENT**	**124**
	KFC	54
	LONG JOHN SILVER'S	36
	LJS/A&W	31
	LJS/KFC	3
34	**V & J HOLDING COMPANIES INC.**	**123**
	PIZZA HUT	61
	BURGER KING	30
	AUNTIE ANNE'S	24
	THE COFFEE BEANERY	6
	EDY'S	2
35	**LUIHN FOOD SYSTEM**	**122**
	KFC	61
	TACO BELL	40
	KFC/TACO BELL	21
36	**WISCONSIN HOSPITALITY GROUP LLC**	**121**
	PIZZA HUT	83
	APPLEBEE'S	38
37	**JEM RESTAURANT GROUP INC.**	**119**
	PIZZA HUT	88
	TACO BELL	29
	KFC/TACO BELL	1
	PIZZA HUT/TACO BELL	1
38	**BRIAD RESTAURANT GROUP LLC**	**113**
	T.G.I. FRIDAY'S	71
	WENDY'S	42
39	**KAIZEN RESTAURANTS INC.**	**103**
	DENNY'S	69
	BURGER KING	34
40	**BURGERBUSTERS INC.**	**101**
	TACO BELL	80
	PIZZA HUT	11
	PIZZA HUT/TACO BELL	7
	KFC/TACO BELL	3
41	**MORGANS FOODS INC.**	**99**
	KFC	68
	TACO BELL	17
	KFC/TACO BELL	12
	PIZZA HUT/TACO BELL	2
42	**WEST QUALITY FOOD SERVICE INC.**	**97**
	KFC	67
	KFC/TACO BEL	15
	TACO BELL	9
	LJS/KFC	6
43	**THOMAS & KING INC.**	**95**
	APPLEBEE'S	88
	CARINO'S ITALIAN GRILL	7
44	**MJKL ENTERPRISES MIDWEST/LEVECKE AND CO.**	**89**
	HARDEE'S	57
	CARL'S JR.	32
45	**W2005/FARGO HOTELS REALTY LP**	**88**
	FAIRFIELD INN	39
	RESIDENCE INN BY MARRIOTT	26
	COMFORT/COMFORT INN & SUITES/COMFORT SUITES	23
46	**W2007 EQUITY INNS REALTY LLC**	**86**
	HAMPTON INNS	31
	RESIDENCE INN BY MARRIOTT	15
	HYATT PLACE	14
	HOMEWOOD SUITES BY HILTON	11
	COURTYARD BY MARRIOTT	7
	SPRINGHILL SUITES	3
	COMFORT/COMFORT INN & SUITES/COMFORT SUITES	1
	EMBASSY SUITES HOTELS	1
	FAIRFIELD INN	1
	HOLIDAY INN & SUITES	1
	HOLIDAY INN & SUITES (EXPRESS)	1
46	**JAMES MIKE TREADWELL**	**86**
	KFC	84
	TACO BELL	2

48	**APPLE NINE HOSPITALITY MANAGEMENT INC.**	**83**
	HAMPTON INNS	21
	HILTON GARDEN INN	18
	COURTYARD BY MARRIOTT	13
	RESIDENCE INN BY MARRIOTT	8
	HOMEWOOD SUITES BY HILTON	7
	FAIRFIELD INN	4
	TOWNEPLACE SUITES BY MARRIOTT	4
	SPRINGHILL SUITES	3
	EMBASSY SUITES HOTELS	2
	HILTON SUITES	1
	HOME2 SUITES	1
	MARRIOTT HOTEL	1
49	**NICHOLAS PETERS**	**82**
	PIZZA HUT	76
	KFC	6
50	**SOUTHERN BELLS INC.**	**79**
	TACO BELL	70
	KFC/TACO BELL	3
	PIZZA HUT	3
	PIZZA HUT/TACO BELL	3
50	**SOUTHERN MULTIFOODS INC.**	**79**
	TACO BELL	56
	KFC/TACO BELL	15
	LJS/TACO BELL	6
	LJS/A&W	1
	PIZZA HUT/TACO BELL	1

TOP 25 BRANDS OF THE 2013 MULTI-BRAND 50

1	PIZZA HUT	3,550
2	KFC	1,005
3	TACO BELL	950
4	BURGER KING	747
5	SUBWAY	623
6	WENDY'S	467
7	HARDEE'S	358
8	CHILI'S	237
9	DUNKIN' DONUTS	236
10	LONG JOHN SILVER'S	230
11	EINSTEIN BROS. BAGELS	189
12	KFC/TACO BELL	186
13	POPEYES LOUISIANA KITCHEN	163
14	QUIZNOS	145
15	CHICK-FIL-A	142
16	APPLEBEE'S	126
17	KFC/A&W	108
18	DENNY'S	103
19	ARBY'S	89
20	CHARLEY'S GRILLED SUBS	84
21	RESIDENCE INN BY MARRIOTT	79
22	T.G.I. FRIDAY'S	74
23	LJS/A&W	70
24	PAPA JOHN'S PIZZA	68
25	SBARRO	66

Source: FRANdata. Co-branded concepts from Yum Brands (Pizza Hut, KFC, Taco Bell) may inflate totals in the Top 25 list; Yum sold off its A&W and Long John Silver's brands in 2011.



BY EDDY GOLDBERG

PROTECT YOUR ASSETS!

WHEN YOU GOT SOMETHING, YOU GOT SOMETHING TO LOSE

You've worked hard, sacrificed time with the family to build for their future, and you've put together a tidy nest egg. Of course you have all your business affairs in order, so no worries, right? Umm, right?

Could it be you've overlooked some critical detail over the years? When was the last time you reviewed those "boring" legal and financial documents—you know, the ones intended to ensure that you keep your money and pass it on to your heirs, instead of Uncle Sam? Did a law, regulation, or tax rule change while you were busy building your franchise empire? What happens when your franchise agreement or a lease comes up for renewal? Has technology made you vulnerable in ways you never imagined?

"When a lot of us started, we were young, naïve business people and didn't pay as much attention as our lawyers and accountants told us," says Gary Robins, who operates 40 Supercuts and 1 Cost Cutters hair salons. "But as your company becomes larger and larger, you don't get to follow the rules less; you have to follow them more—because there's a lot more at risk if a mistake happens."

For Grant Simon, with 40 units in the Atlanta area, asset protection means "protecting my assets and equity within my business entities, as well as personally, against losses." He also says this wasn't as important to him when he was starting out as it is today.

At that time, he says, "You don't care what kind of personal guarantees they ask for, you just want to get the money to grow." Besides, he says, "A personal guarantee wasn't worth much anyway at that stage, so you give it to them."


Gary Robins

That all changed with success. "Sometimes you don't know whether to focus on growing or protecting your assets. You've reached a certain stage of asset accumulation or comfort, and you want to protect it," says Simon, whose assets today include 28 Great Clips salons, 11 T-Mobile stores, and a Smoothie King in the Atlanta area, as well as real estate.

The basics

So what are the basic components of asset protection? Franchisee attorney Gerald (Jerry) Marks, with Marks & Klein LLP in Red Bank, N.J., lists four major areas: 1) entity separation, 2) disability and life insurance, 3) estate planning, and 4) succession planning. "I do a lot of estate planning, and really, asset protection is part of estate planning, and part of estate planning is asset protection."

> **"SOMETIMES YOU DON'T KNOW WHETHER TO FOCUS ON GROWING OR PROTECTING YOUR ASSETS. YOU'VE REACHED A CERTAIN STAGE OF ASSET ACCUMULATION OR COMFORT, AND YOU WANT TO PROTECT IT."** —Grant Simon

Other aspects of asset protection include data breach security, employee (mis)behavior and lawsuits, social media, and a raft of others.

"Asset protection has many different meanings to multi-unit franchisees," says Aziz Hashim, who operates 50 restaurants (Domino's, Popeyes, and Rally's) in Georgia, Florida, Arizona, and California. "For me, the issue is one of protecting the equity that has built up in the business against unforeseen risks, and particularly uninsured risks." Hashim noted three areas in particular, among the many MUOs must confront:

1. Liabilities resulting from government actions, such as wage and hour lawsuits, which are not insurable.

2. Unfair termination or loss of renewal of a franchise agreement (and the constant reminders that franchise agreements are term bound; many franchisees are under the false impression that they have rights forever and that renewals are "automatic").

3. Government action such as eminent domain, where a great site can be rendered useless or be forcibly taken for pennies on the dollar. "For a multi-unit franchisee in a major city, it's an issue," he says. "As traffic problems rise, municipalities respond by expanding roads, creating medians, etc. In my career, I have lost one location totally, and had two or three others suffer considerably by center medians. These were significant losses."

The keywords here are "unforeseen" and "uninsured" (or underinsured). And, as onerous as insurance can be, in an overly litigious society, it truly is better to be safe than sorry. The amount and type you purchase will depend on your tolerance for risk (sleeping well at night), as well as your organization's stage of development.

Corporate structure

As multi-unit franchising has evolved, many franchisees have formed different entities for each of their units, with each location set up as a separate corporation. That protects you from certain liabilities, says Robins, and could allow you close a location if you can't work it out favorably with the landlord or franchisor—though not always with the franchisor, if you have other locations with that brand.

"I know other franchisees use this, but I have no idea what percentage. Most I know run under one large corporation," says Robins. "You can insure against some of the risks of the additional liability concerns you may have, for example, if someone sues you at a specific location, by getting an umbrella policy for the large corporation."

However, "To set up separate entities for each corporation, you have to file separate tax returns, payroll, and P&Ls for each, which can be quite burdensome with a lot of locations, when you could be protected by one policy," he says. "That's one strategy we use, so we probably pay some increased amount, not overwhelming, to make sure we're well insured and that would protect some of our assets."

Although incorporating protects your personal assets, "If you don't *behave* like a corporation, you lose that protection," warns Robins. Proper corporate behavior includes holding regular board meetings, taking good notes, and keeping your personal and business accounts separate. "If you're commingling business and personal, a smart attorney will be able to pierce the corporate veil and get to your personal assets."

Simon, on the other hand, has his assets in four separate corporations, one for each of his three brands and another for his real estate business. "With the real estate, I have one real estate company that manages residential house rentals," he says. "Some people put each house into an LLC, which probably is advantageous, but I never did that. I'm probably due to go to an attorney to talk about my structure to be impenetrable."

When he started out, his first company was an S corporation. LLCs hadn't come along yet, and his other three companies are LLCs. "An LLC affords the same amount of protection as an S corp, and it gives me more flexibility."

Simon keeps his four corporations separate. "I haven't cross-collateralized any of those, and I try not to give personal guarantees on leases," he says, although he still has locations open from his early

> “I DO A LOT OF ESTATE PLANNING, AND REALLY, ASSET PROTECTION IS PART OF ESTATE PLANNING, AND PART OF ESTATE PLANNING IS ASSET PROTECTION.”
>
> —Jerry Marks

days that he has personally guaranteed.

“As I grow, I am more and more cognizant of not jeopardizing what I have already gained, and I become more risk-averse in my growth strategies. For example, I would not be willing to cross-collateralize or guarantee a new business with all of my other entities or personally,” he says.

The franchise agreement

Perhaps the most deal-killing clauses in any franchise agreement are those requiring the franchisee to be responsible for lost future or accelerated royalties. At one point, Simon was considering adding a restaurant, but it had one of those clauses in it. “It was a stopper for me,” he says. “It can be very damaging, if enforced.”

“We review contracts that we enter into pretty well, we spend the extra time,” says Robins. “I read all the small print—even if the back has 37 paragraphs in small print. This is another way we protect our business interests and assets.”

For instance, he says, the franchisor may look at an onerous clause and say they never execute on it. “We can’t take that risk,” says Robins. Even if you love reading the small print to weed out potentially dangerous clauses, “It’s very challenging to do in some of your larger contracts, like franchise agreements and leases,” he says.

“You look at those and try to limit your exposure in case things don’t go well. You try to limit your exposure to the actual costs incurred by that unit, *not* by all of your units. One example: many franchise agreements say that if a franchisee defaults at one unit, they’re in default at all their units with that brand, and the franchisor can accelerate royalties on their units. “When we look at contracts, we try to limit cross-unit default,” says Robins.


Jerry Marks

Negotiating each clause and what happens in different cases is important to limiting your liability, says Simon. “You can lose your business through no fault of your own, then still be responsible.”

Leases

After the franchise agreement, the biggest liability you will have as a franchisee is signing leases, says Simon. You’re usually looking at a minimum 5-year commitment, and landlords look for some guarantee if things go south.

“If I am signing a lease and it is a new entity, I may offer the landlord an additional guarantee with one of my other entities, or in some cases a very limited personal guarantee,” says Simon. “If the entity signing the lease has already established itself as a successful company, then I will require that the guarantee of that entity stand on its own. Each entity is protected by a corporate structure that protects my other assets, and that amount of protection is controlled by what I am willing to risk.”

At renewal, he says, landlords will insist on a personal guarantee. “I try to get them dropped,” he says. But if it’s a good location, he’s willing to put up with it. For his new T-Mobile business, the landlord wanted a full personal guarantee. “I settled on a limited guarantee. I will guarantee, but limit my risk.”

Experience with contracts and a good track record can be a negotiating asset. “What’s helped me is I know most of the landlords from my previous businesses, so I have credibility as a tenant even though it’s a new business. So I’m usually able to negotiate something,” says Simon. “From an entrepreneurial standpoint, you’re always thinking about limiting your liability.”

Options include writing in a maximum dollar amount or number of years to pay. That way, you’re not liable for the entire lease period. “Landlords will give that sometimes, other times not,” he says. “Sometimes I’ll give a full guarantee for the first 2 years, especially if they’re giving a TI allowance up front.” However, he says, although the personal guarantee may go away after 2 years, the corporation signs the lease and is still responsible.

“It’s very important to use a good real estate attorney,” adds Simon. “I probably know as much as anybody about leases, clauses, and risk, but I still use an attorney,” he says. It also doesn’t make you the bad guy to the landlord in lease negotiations.

If you can’t completely negotiate personal guarantees out of a contract or lease, “Try to limit personal guarantees as much as you can,” says Robins. “I try to limit it to, ‘You can’t accelerate it, but

> **"FOR ME, THE ISSUE IS ONE OF PROTECTING THE EQUITY THAT HAS BUILT UP IN THE BUSINESS AGAINST UNFORESEEN RISKS, AND PARTICULARLY UNINSURED RISKS."** —Aziz Hashim

I'll pay you what I owe you.' I'll sign for that $50,000, but not for 10 years and $500,000. We try to mitigate the onerous, penalty side of this with landlords too."

There was a time, he says, 2006 to 2008, where a franchisee could borrow money without this, but not so much today. "In many cases you have to offer personal guarantees," Robins says.

Additional considerations

A quick checklist of other aspects of asset protection include the following:

- **Employment Practice Liability Insurance (EPLI).** "It's very expensive for me to maintain, but I've decided it's worth it for me to have," says Simon. "That's another risk decision I've made. It protects me from something that could devastate my business."
- **Payroll.** "We still use paychecks, not payroll in-house because they're experts at dealing with those things; and if they make a mistake it's their responsibility," says Simon. "It's another cost to the company, and probably cheaper in-house, but having the extra guarantee and peace of mind from the payroll company is worth it for us."
- **Uncle Sam.** Then there are those external threats that you can't prevent or prepare for. "The government can always come in and turn your business upside down," says Simon. "They have the power to force you out of existence if they want." Taxes—payroll, income, and sales—can be a real killer. "We do the best we can to be accurate and provide audit proof," he says.
- **Employees.** When it comes to employees, put it in writing, follow through on the policies, and document employee behavior and your response.

"We have written policies for sexual harassment, discrimination, etc.," says Robins. When you hear something, start a formal investigation, he says. "We have a 12-step process, with lots of documentation. We take it seriously, and follow the guidelines on how to handle it."

Aziz Hashim

Simon also has extensive policy and procedure manuals. "We're very careful and have people who deal with this every day—and we carry that EPL insurance, which is not something everybody has. It's an expensive way to know what your downside is on one of these claims, because it's unlikely it would come to a very large case or settlement with the EEOC. But if it did, they could charge you huge fines, potentially triple damages."

It could be a legitimate case, or one you couldn't make go away, and a jury verdict could have a devastating effect. "EPL is the only thing that will cover that," he says.

"I buy a lot of insurance, and it protects me against the really large losses," he adds. He also works to keep his premiums down by not making small claims with his policies, only very large ones.

- **Social media and data security.** When it comes to social media, there's not a lot of precedent in the legal arena, and outcomes of cases vary wildly as the law evolves. Despite these uncertainties, there are things franchisees can do to protect themselves from employee actions online.

Robins has a written social policy stating that employees cannot disparage the company. "Then we had an employee do it, trashing us on Facebook. We fired him for it. He filed for unemployment and with the labor board. We won because we had a social media policy that we had lawyers look at." However, he adds, he's seen cases go the other way. "This area is still up in the air. There have been great examples of how you handle that, as well as bad ones." For Robins, it's about the leadership of the company and how they choose to handle it.

Simon also has a written social media policy in his employee handbooks. He said those policies all came from the franchisors of his three brands. The franchisors also have disseminated policies for data security, to protect both brand and franchisee from the fallout of data breaches. "PCI compliance is a huge thing right now," he says.

If you're not protected and you have a breach of customer data, including credit card information, you can be held liable for damages, based on your size and the number of transactions. "The level of protection increases as the volume does. Most franchisors are up on this, and are acting to protect franchisees," he says.

So if you don't have a written policy in place, either from your franchisor, or one you've developed yourself with a trusted data security firm and reviewed by your attorney, get one—yesterday! MUF


FUNDAMENTALS
by JIM SULLIVAN
FUNDAMENTALS
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BY HELEN BOND

Franchising

Female franchisees are carving out their own success stories

For most of her 40-year career, Linda Read says she has had to work harder, be smarter, and produce better results than the men in her field. Today she's the largest Auntie Anne's franchisee in California.

While she has seen improvement in attitudes toward women in business over the past four decades, she's also endured some seriously backward behavior in her earlier career as development director, first at a law school and then at two hospital foundations.

"I remember a man in a job interview asking, 'Are you sure a woman can ask a man for money?'" says Read. These days, such a question is not only verboten, hardly anyone even thinks to ask it anymore.

Proof of business success can be found in production, says Read, who operates 11 Auntie Anne's pretzel stores. "Results are the great equalizer, and a successful woman who out-achieves her male counterparts is a force to be reckoned with," says Read, president of Pretzel King, LLC in Glendale, Calif.

Whether seeking more control over their work lives or a fresh business start, women are increasingly choosing to make their own way in the world of business—and franchising.


Linda Read

Although data is limited, at last count, women accounted for 25 percent of franchisees.

Between 1997 and 2012, the number of women-owned firms in the United States grew 54 percent—a rate 1.5 times faster than the national average, according to a study from American Express Open. And women own about 8.3 million businesses in the U.S., 30 percent of the total, generating nearly $1.3 trillion in revenues and employing 7.7 million, according to AmEx's 2012 "State of Women-Owned Businesses Report."

Read, the mother of two young sons, was seeking greater flexibility in her schedule when she traded in two decades in the corporate world to become her own boss. It didn't take long for the hands-on manager to discover that the skills she honed in the corporate world would serve her well in her new role as a franchisee.

Read was just 26 when she was tapped to run the development department of Southwestern Law School in Los Angeles, making her one of California's first female executives in the fundraising profession. Eventually, she was named assistant dean before moving on to serve as development director at two major hospital foundations. Along the way, Read, who hails from a family of entrepreneurs, cultivated her talents in the areas of public and community rela-

is for girls

tions, marketing, finance, and sales.

A long-distance runner when she was younger, Read, who now prefers Pilates and weight training, was drawn to Auntie Anne's by the opportunity to get in on the ground floor of the chain's rapid expansion plans. When she opened her first location in the Glendale Galleria in 1994, the Southern California unit was among 200 stores nationwide. Today, Auntie Anne's can be found in 1,200 malls, airports, and other quick-stop locations in 23 countries around the world.

With 11 stores and 125 "youthful" employees, Read, now 62, starts most work days at 5 a.m. with a review of the previous day's sales and daily inventory reports. Her friends think she's crazy for still working so hard, but Read says she can't resist the challenge.

"I thrive on growing my business. That is what makes me tick—not just growing in size, but growing in excellence," she says. "I want to be great at what I do, and I know that I am an overachiever in just about everything. I am not interested in complacency and have trouble being around people who like the status quo."

Flight to fitness

Christina Clark of Dassel, Minn., also is a high-energy go-getter. Clark went from flight attendant to a focus on fitness when she and husband Jason snatched up a Snap Fitness franchise in Montrose, Minn. A half-marathoner and mother of four, ages 1 to 9, she experienced the potential of the 24-hour gym center firsthand when, on maternity leave, she helped a friend manage a Snap Fitness facility. Soon there was another addition to the Clark family.

"I said to Jason, 'We need to own one of these babies, not manage them,'" says Clark, 37, who now operates 8 Snap Fitness locations—three newly constructed and the rest remodeled—under various ownership structures that include family and friends. Jason does the books and she is the face of the franchise, handling marketing and customer service.

In 2006, to secure the $200,000 franchise start-up fee needed to open their first Snap Fitness location, the young couple combined borrowing from family with a bank loan. Since then, Clark says she is "loan averse," expanding one unit at a time, only when the $200,000 investment is in hand.

"I would suggest to women looking at any franchise to do their homework," says Clark. "Make sure you research the organization that you put your hard-earned money into, and look for companies that have longevity and the tools in place that you need to be successful—a franchise where you do not have to put in additional capital."

System resources also are important. While the goal is to find a franchisor with proven systems in place, and to work smart by taking advantage of technology, women who look to franchising to gain more control over their work lives often find themselves putting in more hours, particularly since more women than men are still primary caregivers.

For Clark, franchising has transformed the quality of her family life.

"On the outside, the differences between all working women and franchise working women might not look that different,"

Christina Clark

"I'm dealing primarily with men who don't realize that you are as knowledgeable as you are. Gaining their respect was daunting in the beginning."—TAMMY TOREN

says Clark. "I have balance in my life because of franchising. Snap Fitness has given me the tools and support and resources."

Destined for franchising

While entrepreneurs like Read and Clark transitioned into franchising from other fields, Little Caesars franchisee Vicki Dunn-Marshall seemed destined for business ownership from the start.

Dunn-Marshall, who owns 24 Little Caesars restaurants in West Virginia, Kentucky, and Ohio, began her journey with the chain as a crew member when she was 16. She was quickly promoted to assistant manager and then manager. Each time the young entrepreneur needed a new challenge, "There was always something else to grow into," she says. Dunn-Marshall served as carry-out supervisor of seven units, before joining the franchise sales department where she assisted franchisees with market development.

"The only reason I am not with the company is that I traveled the country to help franchisees open their stores and I saw how wealthy these people were getting," says Dunn-Marshall, president and CEO of VDM Management Group in Huntington, W. Va. An admitted risk taker, she also develops commercial and residential rental properties, is an investor in a health-related product manufacturing company, and owns a business that breeds, sells, and shows American Saddlebred horses, a passion of one of her two daughters.

Since she became a franchisee in 1982 at age 22, Dunn-Marshall has seen the role of women in franchising evolve. "In the beginning it was harder," she says. "I had landlords who didn't want to negotiate with me. I was blessed to have my father to use to go in together. We overcame those challenges."

As a result, Dunn-Marshall dedicates herself to mentoring her employees at every turn. With a self-described "lead by example" management style, she has helped former employees become Little Caesars franchisees—some of whom bought their stores from her.

"I want to help them to wherever or whatever they can dream," Dunn-Marshall says. "I want to do this with my daughters as well."


Tammy Toren

If the hats fit

"The nice thing about getting into franchising is that they give you all the tools, but obviously the implementation is up to you," says Tammy Toren, a Chicago-based Plato's Closet franchisee who previously worked in corporate training for a national restaurant chain.

Entrepreneurs like Toren simply learn what they don't know. In the past year and half, she has moved, opened, and expanded three of her four Chicago area retail locations, which cater to the teen and 20-something customer. While growing pains mean business is booming, her hands-on approach has forced Toren to add general contractor and shrewd negotiator to her skill set.

"In those trade fields, I'm dealing primarily with men who don't realize that you are as knowledgeable as you are," she says. "Gaining their respect, in that aspect, was daunting in the beginning."

To fill in her knowledge gaps Toren, who also owns a Once Upon a Child resale store (like Plato's Closet, a Winmark Corp. brand), believes strongly in fostering relationships among her fellow franchisees, and readily shares her expertise in training and hiring. She's also gone back to school, taking college classes at the University of Chicago on finance and social media.

"I have a wealth of knowledge at my disposal at any moment," says Toren, who in 2011 opened the largest Plato's Closet in Illinois, an 8,000-s.f. retail store that posted $1 million in sales in its first year—the highest opening in Winmark history.

The future is bright

Business success now affords these franchisees the freedom to keep learning, both personally and professionally, as well as to give back to their communities.

Dunn-Marshall, a member of the Young Presidents Organization, is also a big proponent of taking advantage of networking, educational opportunities,


Vicki Dunn-Marshall

seminars, and conferences to keep growing, so you "don't sit on your laurels too long," she says.

Read, with bachelor and graduate degrees in political science, dreamed of becoming a political consultant. Now her passion is pretzels and doing good works. Her Auntie Anne's stores have donated hundreds of cases of water to homeless people during the hot summer months, donated 65,000 bookmarks to area libraries for summer reading programs, and hosted field trips and senior citizens groups at her stores. Auntie Anne's has also partnered with Alex's Lemonade Stand, a foundation dedicated to fighting childhood cancer. Read, who has since remarried, lost her first husband to cancer in 2004.

While the future for women in franchising looks bright, much work remains: the culture at large has evolved, but many individuals still have a long way to grow. Women are launching new businesses at more than twice the rate men are, yet government statistics reveal that, on average, women-owned businesses are smaller compared with male-owned businesses.

Still, women are projected to create more than half of the nearly 10 million new small-business jobs by 2018, according to The Guardian Life Small Business Research Institute. And you can bet female franchisees will be there to seize the opportunities.

"There are still challenges, insecurities, and barriers many of us feel from time to time, but today's environment is more conducive and welcoming to women then it was 10 or 20 years ago," Clark says. "This is such an exciting time for women."

AdIndex

Security

BY JOE DURFEY

Make Payment Security Standard

7 tips to safeguard your business from data breaches

If I know anything about franchisees, it's that they have lists for everything, from daily kitchen cleaning practices to employee entrance procedures. In the spirit of checklists, I've specified seven basic payment security elements on which to build an in-house vulnerability management program and avoid fines that may result from Payment Card Industry (PCI) Data Security Standard (DSS) non-compliance.

1) Create employee policies for handling card data. Business security often fails from a lack of security policies that regulate employee interaction with sensitive data. Remember Sony's embarrassing compromise in 2011 that put 25 million users and 20,000 credit card numbers at risk? The right employee policy, in combination with some simple security fundamentals, would have easily prevented worldwide humiliation.

A good example of a card handling policy includes: "Credit card numbers and cardholder data may not be emailed, faxed, or sent via any electronic messaging technology such as instant message or chat."

Remember to require policy documentation signatures annually, and consistently enforce the policy. Many PCI vendors offer general security templates you can use to create a customized policy for employee training and secure payment processing.

2) Update software. Computer applications regularly release updates to patch security holes in software. Security is the number-one reason to continue updating to the latest version of any system software. You must regularly install updates on Internet browsers, firewalls, application software, POS terminals, and operating systems to fix holes hackers could squeeze through.

3) Use an ASV with up-to-date scanning engines. Vulnerability scans are automated, affordable, high-level tests that identify exploitable network weaknesses and are conducted by a company with PCI Approved Scanning Vendor (ASV) accreditation. However, not all ASVs are created equal. Shop around for an ASV who regularly updates their scanning engines and tests for at least 50,000 vulnerabilities. Criminals search for new weaknesses every day, and if scanning engines aren't updated regularly, criminals may be able to exploit your system.

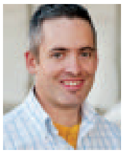
4) Regular vulnerability remediation. Vulnerability scanning isn't just about locating and reporting vulnerabilities; it's also about establishing a repeatable and reliable process for assessing their remediation month after month. After a scan completes, it is crucial to fix any located vulnerabilities on a prioritized basis. SecurityMetrics' vulnerability support team recommends prioritizing based on risk and effort required. Continue running scans until the scan returns clean. Your PCI vendor or IT director can assist further in your vulnerability remediation. As an added bonus, vulnerability management is a concrete way to prove the return on investment for mitigating business risk and managing security compliance.

5) Change default passwords. I am constantly surprised how common this problem is in both small and enterprise businesses. Most technology systems come preset with default passwords such as "admin" or "1234," and because all systems use the same password, it's easy for a cyber criminal to gain access. When new systems are implemented, you must immediately change default passwords, and require each administrator to use a unique password.

In addition, it's important to use strong passwords. If you have a difficult time remembering passwords, I suggest a "pass phrase." They are extremely difficult to crack, but very easy to remember. Think of a memorable phrase, and then take the first letter from each word to create a new password. Here is an example: "My dog Kibbles has 16 teeth & loves 2 eat Steak" becomes "MdKh16t&l2eS." This complex, 12-character password is complete with all the aspects of a secure password: letters, numbers, capitalization, and special characters.

6) Encourage your IT team to become QIR certified. One of the most common outcries we hear from breached businesses is, "But our IT guys *said* we were secure!" You depend on service providers to install, configure, and maintain your applications, but how can you be sure they are implementing the technology with correct security principles in place? The PCI Council's Qualified Integrators and Resellers (QIR) program trains third parties to implement best practices when maintaining payment systems. Encourage your third-party technology provider to become QIR-certified, or you may have to find an IT company that makes security a priority.

7) Remove stored, unencrypted card data. The scariest trend we see in our work is that 71 percent of businesses store unencrypted payment card data, which is 100 percent against PCI security standards. To check if your business is among the 71 percent, download a card data discovery tool such as SecurityMetrics PANscan. A card data discovery tool checks your network for anything that may resemble card information so you can securely delete, identify, and patch its source. Using a tool like this will greatly reduce your effort and decrease the chance of card data theft.



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BY STEVE LEFEVER

Know Thy Bookkeeper

14 red flags for preventing fraud

I've often heard this comment by franchisees: "I keep my own books to save money, but I really hate the process!" Just as often, I've made the following response: "Business owners/managers should do what they do best; focus on making it and selling it."

If you really do hate bookkeeping (and I know I do), there's a predictable outcome: at 10 p.m. on the last day of the month, you'll still have 3 or 4 items you're not sure where to put—so you'll just "shove them in somewhere."

After a few months, your books and records will be riddled with inaccuracies. Since all of my previous articles have focused on using the powerful tools of Profit Mastery to make better, more strategic financial decisions, the lack of accurate financial information will render these financial tools useless because the data you're using is not accurate. A classic case of GIGO—garbage in, garbage out.

On the other hand, when you bring in an outside bookkeeper to keep track of the financials, you then have another person whose hands are on the flow of funds through your business. And, although the likelihood seems remote, there is a chance they could decide to siphon off some of the funds for themselves. Yes, fraud.

Remote possibility, you say? I agree. However, perhaps not for the reasons you think. I believe the possibilities are remote for one simple reason: most people are honest.

However, over the years the thousands of accountants who have attended my Profit Mastery sessions have consistently related the same message that because of inadequate controls, supervision, and separation of duties, most businesses are exceedingly vulnerable to fraud; they just haven't run into the "dishonest minority." Yet…

> **When you bring in an outside bookkeeper, you then have another person whose hands are on the flow of funds through your business.**

14 red flags to watch for

So, lest you get too lax, I offer the following checklist as a "bookkeeping fraud safety net."

1. Has your bookkeeper asked for signature authority on your checks?
2. Does your bookkeeper frequently make telephone transfers from your bank accounts or credit lines?
3. Does your bookkeeper's lifestyle seem inconsistent with their earnings?
4. Does your bookkeeper frequently take records home to work on, or work in the office when no one is around? (Fraudulent activities are more easily accomplished when no one else is around.)
5. Does your bookkeeper refuse to go on vacation?
6. Does your bookkeeper seem to resent or get defensive when you or your CPA ask questions?
7. Does your bookkeeper have access to your credit card information and receive mail-order packages at work?
8. Are your accounting records a mess?
9. Do you receive frequent tax delinquency notices that the bookkeeper explains away as government error?
10. Does your accountant insist on handling activities for which other departments are normally responsible? These might include picking up the daily mail (for fear something could arrive that would tip off management), acting as the sole go-between with the company's financial contacts (banks, auditors, creditors, etc.), and working with police when items or money are missing?
11. Does your bookkeeper continually misfile important items such as payroll receipts, deposit records, supplier correspondence, and estimates?
12. Do your deposits frequently seem too small? Owners should always carefully monitor income and deposits, comparing sales receipts against actual amounts put into the bank.
13. Does your bookkeeper show signs of a drinking, drug, or gambling problem, or family financial problems?
14. Has your bookkeeper suggested replacing or getting rid of the outside accounting firm, saying they can handle the duties of the independent accountant and "save the company the added expense?"

If you answered yes to any of these questions, don't panic. Chances are there is a perfectly reasonable and acceptable explanation. But don't ignore the symptom either. Talk with your CPA and carefully evaluate the situation. You may only need to put some additional controls in place.

Fraud or embezzlement can occur at any point in your operation. So think about everyone in your organization who "touches" the flow of funds, services, or products through your company. And apply an "edited version" of the above questions to the situation.

Finally, remember that it's the victim

> **Think about everyone in your organization who "touches" the flow of funds.**

who provides the opportunity, and the thief who supplies the "need." And there are many events that create need, from alcohol, gambling, and drugs to just plain greed. In the end, the odds of experiencing fraud or embezzlement are exceedingly low... unless it happens to you. As the Boy Scout motto says: Be Prepared. 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.*

Finding a CPA

- **taxsites.com/cpa-societies.html** — a listing of state CPA societies, most of which will have a section called "Find a CPA"; searchable by type of service needed as well as by industry
- **accountant-finder.com** — for locating accountants by area; very basic and more comparable to a telephone directory listing
- **accountantsworld.com/list/directorylist.aspx** — this directory also provides nationwide search capabilities
- **proadvisor.intuit.com/accountant-match** — QuickBooks has a great website to search for a local QuickBooks expert

InvestmentInsights

BY CAROL M. SCHLEIF

There's a New Environment Dawning for Investors

Time to be nimble as markets continue to change

There's an old adage on Wall Street: When someone says, "It's different this time," run as far and as fast as you can.

After surveying today's overarching trends, however, an important tipping point seems close at hand; one that tees up an investing environment vastly different than the one we've known for decades. Survival and success will require different thought processes, strategies, and investment tactics than those we've relied on before.

When I started my investment career in the 1980s, the marginal income tax rates for top earners had fallen from 70 percent to 50 percent, and a mere 5 percent of the population owned equities. Bond yields stood in the upper teens/low 20s, and scores of wizened industry veterans declared they'd wait to invest until dividend yields exceeded bond yields. The Dow Jones Industrial Average had eclipsed 1,000 points—the first time it had traded there since the 1960s—yet the market's prices-to-earnings ratio stood at seven.

In the intervening decades, bond prices soared as yields dropped to zero (or below, if inflation is factored in). Companies cleaned up their balance sheets with lower-rate debt, benefited from the productivity enhancements brought by technological innovation, and experienced the delightful tailwinds of globalization and plummeting commodities costs.

Those were definitely fun times while they lasted. But change is in the air.

The new environment

- **Bond bust.** After sliding for 30 years, it's highly unlikely that bond yields can go much lower; the end of the bond bull may well be nigh. For the millions of bond fund investors late to the party, the notion that one can lose money in bond funds may become as harsh a reality as 2001–02 was to technology investors. Historically purchased for safety and yield, fixed income investments—particularly in the form of mutual funds—may well not offer either in the years to come.
- **Fewer players.** The new laws and regulations enacted in response to the market crashes of 2001–02 and 2008–09 put a significantly greater compliance and infrastructure burden on purveyors. That, in turn, has increased the cost to do business and made the barriers to entry even higher. Realistically, given an increasingly global and more regulated investment environment, a firm must be large enough to support global coverage of multiple asset classes, or be small but incredibly deep and focused on one area of expertise.

> **Growth will come from burgeoning middle classes in developing countries. By one estimate, 3 billion additional people will move into the middle class globally over the next 20 years.**

- **Inflationary pressures.** In the wake of all the money that central bankers have printed in recent years, inflation will most likely pick up in the not-too-distant future. I suspect few portfolio managers know how to invest during inflationary times—and even fewer corporate chieftains know how to operate amid such pressures.
- **Global strength.** Deleveraging among developed countries will prompt global companies to seek growth elsewhere. While investors fret over political gridlock, deficits, and deleveraging woes within developed countries, corporations based in those same countries can now do their business all around the world, and they are. Furthermore, they can keep their cash and their investments in countries that not only offer better development opportunities but also friendlier tax policies.
- **The developing middle.** Growth will come from burgeoning middle classes in developing countries. By one estimate, 3 billion additional people will move into the middle class globally over the next 20 years. That is good for consumer companies, commodities and infrastructure firms, industrial/infrastructure firms, and more.
- **Overseas economy.** The domestic unemployment rate may remain higher than before, yet the economy can still do okay. While part of the unemployment rate likely represents the unemployed whose skills no longer match today's jobs, this reality doesn't prevent companies from conducting business and expanding their operations overseas.

Potential investment implications

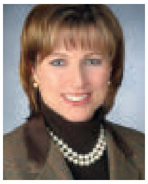
- **Stock surge.** Stocks will be in vogue as many (or most) institutional investors are woefully underinvested in them. Ever since the 2001–02 downturn, such investors have flocked to hedge funds and private equities. However, many have become frustrated by the inherently complicated structure, lack of liquidity and income, and opacity often associated with these investments. The fact that stocks returned more than 16 percent last year on average—and provide potentially daily liquidity and a better-than-bonds average yield—is making the pundits take notice.

- **Cap values.** Any big migration back into stocks would likely start with the large- and mega-cap stocks where liquidity and coverage are the best. When these investments become too expensive, it's likely that same trend would trickle down to small-cap stocks. (Indeed, the two asset classes that performed best in the inflationary 1970s were real assets and small-cap stocks).

Remember that change isn't necessarily bad; it just means things will be different.

- **Global cap bias.** Given more favorable fundamentals, sounder country-of-origin balance sheets, and the increasing liquidity of local markets, emerging and frontier market small-cap stocks may do better than U.S. small caps.
- **Real assets, real strength.** Real assets (timber, energy, precious metals, and other commodities) have historically held their value well during inflationary times. After all, at the end of the day, there's something real to hang on to. I suspect this time will be no different.

So there you have it. I'm going out on a limb and declaring the old era nearly gone and a new one dawning. Remember that change isn't necessarily bad; it just means things will be different. And for the nimble and open-minded, different can be fun! MUF



Carol M. Schleif, *CFA, is regional chief investment officer 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.*

Profiting from the Service-Profit Chain

Rewarding its most loyal customers propels Harrah's to the top of its class

I attend a lot of franchise conferences in Las Vegas. When you look around there, gambling seems to a very profitable business, right? But you also look around and see a ton of competition. And no matter where you play, it is basically the same games. By that description, the casino business is a commodity business. Same games, lots of choices.

What is really the difference between one casino and another?

Let me tell you a story about the unlikely little company that has become one of the world's most distinguished casino operators. The company started as Harrah's in Reno, Nevada. Over time, Harrah's was acquired by Holiday Inn and built casinos all around the U.S., including Harrah's Las Vegas. As the new luxury casino resorts were built between 2000 and 2010, Harrah's properties did not compare well on style and class and resort amenities.

For example, the Harrah's in Las Vegas cost $315 million to build. But then down the street and across the block, the Bellagio opened—at five times the cost ($1.6 billion). Not long after that Wynn Resorts was built for $2.7 billion. Word on the street in Las Vegas was that the Wynn was the kind of place God would have built—if He had the money. No expense was spared. Harrah's could not compete on that basis.

Times were tough when Harrah's hired Gary Loveman, a Harvard Business School professor, to figure out some way to entice Las Vegas visitors to come to Harrah's to play the same games they could play at the Bellagio, even though Harrah's was just not nearly as cool a place. Loveman told me, "My chef's names are Bob and Joe, not Wolfgang." Harrah's didn't have opulent swimming pools or Céline Dion and Elton John performing. So customers would have to go to Harrah's for other reasons.

And those reasons would be all about service, they decided. Unfortunately, Harrah's service was nothing special or different, either. Harrah's knew that because they collected a lot of data about the customers who visited them. The problem they discovered was they had an *absence of loyalty*. Customers who gambled at Harrah's spent only 36 cents of their gambling dollar there. Where were customers spending the other 64 cents? At the competition! Harrah's customers were giving nearly two thirds of their business to the competition.

> **Why give employees bonuses for better service? Because better service would be worth a ton of incremental revenue and profit—and because it did not require a huge capital investment.**

Harrah's started scientifically measuring the overall customer experience to figure out the key drivers of customer loyalty. They rewarded each property's management and staff on how well they delivered a loyalty-inspiring customer experience. Why give employees bonuses for better service? Because that better service would be worth a ton of incremental revenue and profit—and because it did not require a huge capital investment to increase customer loyalty by creating a superior customer experience.

The basic idea is that behavior that gets rewarded, gets repeated.

Harrah's identified and ranked their most profitable customers by creating a customer loyalty program called Total Rewards. Every dollar customers spent on gambling, hotel rooms, dining, and entertainment with Harrah's translated into points. And those points translated into tiers in the Total Rewards Loyalty Club. The highest tier is Diamond, then Platinum, then Gold—and one Diamond member is worth about 200 times as much as a Gold Member.

Harrah's made sure that their most profitable customers always stood in the shortest lines. Though every customer could count on uncommonly friendly and helpful employees, those who spent the most at Harrah's got tons of extra perks. Besides short lines, VIP rewards included free tickets to shows and restaurants, special deals, even complimentary rooms.

Soon, Harrah's had built the largest customer loyalty program in the casino industry. They had also improved their customers' experience every year, proven by higher customer satisfaction and loyalty scores. In 2006, Harrah's acquired Caesars Palace based on a brilliant premise: with Caesars' superior resort amenities and brand name, the smartest way to merge was to name the combined company Caesars Entertainment, but to have Loveman and his leadership at Harrah's actually lead the business.

And that's the story of how a little company named Harrah's grew to become known as Caesars Entertainment, and has come to be the industry leader in the casino business and one of the most admired companies on the Fortune 500.

To learn what transformed Harrah's from also-ran to industry leader, I recommend you read *Putting the Service-Profit Chain to Work*, co-authored by Gary Loveman. You can get a copy at http://pagesetup.com/images/content/hbr-article.pdf.

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.*

JOHN C. MORGAN BRINGS
LAUGHTER, INSPIRATION AND MOTIVATION
AS PRESIDENT GEORGE W. BUSH

★★★★★

An Interview with Dina Dwyer
Chairwoman and CEO, The Dwyer Group®

Paul Moore: "This is Dina Dwyer with The Dwyer Group, a very gracious lady that we met tonight. She hired "W" for their Annual Reunion. Dina, did you enjoy having "W"?

Dina: 'He was amazing. It was just so much fun for me to look out into the audience of about fifteen hundred people, to see the look on their faces as he walked onto the stage, to "Hail to the Chief." It was like a look of awe, and then they were grabbing their camera and taking pictures. It was just amazing. I expected the best, and he gave us the best."

Paul: "Do you think anybody believed it was him?"

Dina: "Yes, I'll bet a good ninety percent, again just looking at their faces, I'd bet a good ninety percent believed it for at least the first three or four minutes."

Paul: "What kind of an impact do you think he had as he milled around with folks?"

Dina: "You know it's amazing, I think he made people feel very special. There's something about being around someone who looks and acts like a President giving you one on one personal attention, and I think he made a positive difference in a lot of lives today. They're still talking about it. And then the laughter, I think it's so positive for people to laugh and he had them just laughing and really enjoying themselves."

Paul: "Now you've met the real President, right?"

Dina: Yes I have I've met president George W. Bush.

Paul: "Wow, so this was special for you to have him here today?"

Dina: "It was just terrific, and they're a lot alike; really nice guys, funny, but down to earth."

Paul: "Would you recommend people hiring him for their event?"

Dina: "I would highly recommend hiring John Morgan for any event that you have. He will accommodate you no matter what it is. Whether it's a banquet, because he also performed at our banquet, or an opening session, a business meeting, a church meeting, he can fit any agenda that fits with his standards."

Paul: "Thank you Dina."

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BY MEL KLEIMAN

Avoid these Common Hiring Mistakes

10 ways to hire the wrong person every time—guaranteed!

In my 20-plus years of teaching and consulting with business owners and hiring managers about how to "hire tough so they can manage easy," I've discovered there are 10 commonplace mistakes almost everyone makes that are guaranteed to result in bad hiring decisions and waste untold time, money, and effort. Thank God I've never had a client who's made all these mistakes at once, but it really only takes two or three to sabotage your efforts to hire great people. Are you guilty of any of the following?

1. Going grocery shopping without a list. When you don't have a list, you buy things you don't need and forget some of the things you do. Then you have to go back to the store. The same is true in hiring. Many employers recruit applicants with no clear picture of the specific mental and physical capacities, attitudes, personality traits, and skills needed to be successful on the job. When they discover the person they hired with all the right skills also has an attitude problem, they have to go "back to the store" again. (This mistake is a major cause of employee turnover.)

2. Using the "post and pray" technique. You need someone *now* so you post a job or run an ad or put a "Now Hiring" sign on the marquee and pray someone who can start tomorrow will respond.

3. Fishing in the wrong pond. Your recruiting ads attract people who are looking for a job—any job—rather than all the great people who are already employed and looking for a better job. You don't ask your employees, vendors, business networks, family, and friends if they know of anyone who would be a good fit for the job. (Referrals are the number-one best source of new employees.)

4. Making it difficult to get into your hiring system. Most of the best people have jobs and don't have time to fill out a lengthy application or update their resume on the chance they may be invited to interview. You also exclude many excellent candidates by having unreasonable requirements. Is a high school diploma or a college degree really necessary? If you only want to hire someone with five or more years of experience, will you get that… or will you be getting one year of experience five times over?

5. Relying on gut instinct. If you "like" an applicant, you look for reasons to hire them; and if you don't like them, you look for reasons not to hire them. This way you get to be right (but you also often don't hire the right person for the job).

6. Failing to use tools. You don't prescreen applicants by phone to ensure they meet your minimum hiring requirements (reliable transportation, willing to work the hours needed for what you are willing to pay, etc.). You don't test them for the needed capacities, attitudes, personality traits, and skills. Skipping the use of these tools is a guaranteed way to spend wasted time in interviews with unsuitable applicants.

7. Failing to plan for the interview. (1) You haven't reviewed the documents and test results collected to date, or planned what questions to ask. So you just start talking about what you do know, i.e., what the right person for the job will be able to do and how they'll do it. Then the applicant uses this information to answer your questions in just the right way. (2) You interview off the resume or application. Don't you realize that when you do this you're just asking the applicant to confirm the information they've already provided and what they've provided is only what they want you to know?

8. Not asking the tough questions. Hey, the applicant is clean-cut and pleasant so you assume you don't have to ask about criminal activities, drug use, values, past performance, and dependability.

9. Not having a unique hiring proposition. Do you know the top 10 reasons your clients do business with you? Well, you need to know at least five compelling reasons someone should want to work for you. Great pay? Flexible schedules? Family friendly? While you're looking for a great person, great people are looking for a great employer, so you need to sell them on the job and your organization.

10. Not checking references. You just assume that none of these people will tell you anything useful. A failure to check references, no matter what you do or don't learn, leaves you wide open for a negligent hiring lawsuit.

I hope you've been doing a mental self-audit of your own hiring practices as you read through this compendium of common missteps. If you found yourself not guilty on any of these counts, congratulations, you're one of the few. If you found yourself guilty on two or more counts, what you will have to do to remedy the situation will be far less costly and time-consuming than yet another bad hire.

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.*

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BY DEAN ZUCCARELLO

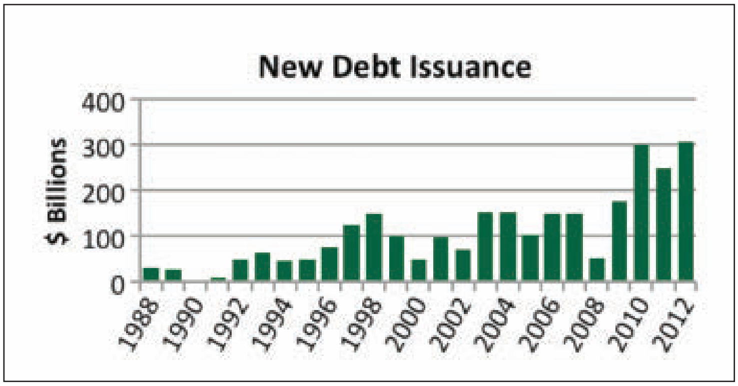
Unique Opportunity—Act Today!

2013 is the ideal time to refinance, remodel, buy, or sell

We are experiencing a rare alignment of stars in the franchise finance world right now, and it's essential that operators act quickly to take advantage of this situation, before the party's over. To understand the current financing environment, let's take a look at the economic "big picture."

Macroeconomic framework

Signals for overall economic recovery continue to be mixed. Households are deleveraging: the ratio of household debt service to income has reached a 30-year low. The housing market is on the rebound: inventory is down, prices are rising, and financing is cheap. Yet the latest figures show a negative GDP for the U.S. in the fourth quarter of 2012, and consumer confidence has begun to wane. Jobs reports seem to swing up and down. And as the Fed injects liquidity into the monetary system, the capital markets improve, creating a more favorable lending environment.



Budget quarrels in Washington, D.C., reached a short-term reprieve, but are looming once again. We expect battles over budget cuts and debt ceilings, taxes, sequestration, and Affordable Care Act implementation to continue over the next few years.

Capital market observations

The Fed continues to drive down interest rates by buying mortgage, asset, and Treasury securities. Lenders are expanding their underwriting criteria as improved balance sheets and competition spur lending activity. Interest rates are at 20-year lows. Junior capital is now widely available again. The number of senior lenders in the franchise space has increased dramatically, with at least seven new national lenders vying for business. Private equity and family offices have a strong appetite for franchised operations, and have a lot of pent-up equity capital to deploy.

One result created by this is an all-time high of new debt issued by companies. Rates are so low that every company is jumping on the debt-issuance bandwagon. In fact, at the beginning of 2013, the average yield for U.S. high-yield (aka "junk") bonds was below 6 percent for the first time ever. Prices for bonds themselves, which move inversely with interest rates, are at historically high levels. It's a great time to be a borrower, but not so much to be the ultimate bondholder.

Opportunities

So just what kinds of opportunities does this environment create for the franchise operator? Let's address three:

1) Mergers, acquisitions, divestitures. The environment has created a perfect storm for transactions. We've mentioned the abundance of credit in the markets, and the new lenders creating competition. In addition, there are many motivated sellers, desirous to move on for any number of reasons: retirement, not wanting to weather another recession, concern over rising healthcare and commodity costs. And there are many motivated buyers: private equity, consolidation into mega-operator formats, and growth-focused operators looking to take advantage of low rates.

2) Refinancing. Similarly, there is an abundance of credit available today for refinancing. The same new lenders are building their businesses, and the established lenders are fighting back. Credit terms have eased, including rates, equity requirements, leverage ratios, prepayment penalties, and elimination of certain covenants. Financing is also more readily available for remodel and reimaging projects, new unit construction, and rebranding of closed units.

3) Dividend recapitalizations. Finally, there is more credit available for dividend recapitalizations. Performing companies with debt capacity are able to refinance and monetize equity. By making a payment to shareholders, companies can allow shareholders to realize value without selling any of their stake.

Action plan

So, what's the takeaway? Simple: it's time to act. We are currently in one of the most favorable debt financing environments in recent history. For sellers, valuation multiples are strong, pent-up equity is waiting to be deployed, buyers are looking to grow and build empires, and there is an abundance of financing. For buyers, there are many sellers on the market, franchisors are selling company stores, equity partners are available for the right operators, and there is abundant financing.

But this won't last forever! While we expect this favorable environment to be in place most of 2013, it will not last. *Now* is the time to create and execute on your action plan. Depending on your strategy, consider the following:

- **Growth strategy.** If you are focused on growth, put yourself in a position to acquire bolt-on acquisitions, such as refranchisings, to bolster your current brand. Look at the acquisition of a new brand. Jump-start organic growth through development. Repurchase underperforming franchisees or inferior operators. But before you start, make sure you are properly prepared in terms of your credit request: clearly show use of proceeds, outline growth expectations through projections, specify timing needs for funds, address a revolver if needed for remodels or new unit development, and be aggressive on your capital requirements.

- **Exit strategy.** If your company has been contemplating an exit, are you aware that the timing could not be better? Buyers are sourcing favorable financing, which increases their motivation and ability to close on transactions. Private equity firms have pent-up capital to deploy, creating demand for performing companies. And lenders are facing competition, driving down the cost of borrowing, thus exerting upward pressure on valuation multiples.

> **If your company has been contemplating an exit, are you aware that the timing could not be better?**

- **Optimal capitalization strategy.** An operating company should periodically check to see if its capital structure is optimized. Are your contract rates competitive with current interest rates? Have you quantified pre-payment amounts, swap breakage costs, make-whole provisions, and defeasance? Do you know your breakeven to refinance? How about your company's debt capacity? There may be enough to tap and deploy the capital to generate returns from your operations. In any case, the timing could not be better to consider a recapitalization.

Conclusion

The franchise finance environment created by this perfect storm of events is as common as a snowstorm in Miami. We won't see this again for a long time, and this window will not be open for long. Take advantage of this to improve your financial position by acting *now*. You'll look back on this time and be pleased that you did. 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.*

FranchiseMarketUpdate

BY DARRELL JOHNSON

'Tis the Best of Lending Times

But not for all: access to capital remains uneven

Capital access for franchisees has been a primary concern since the 2008 financial crisis. Although healthcare and other issues that Washington has managed to wrap in uncertainty have out-shouted capital access, it still is a big issue for many small businesses.

The media seem to be sending mixed signals. Some articles point to a continued lack of capital availability for small businesses; others to the lending good times returning. I am fairly certain both points of view are right, depending on the vantage point. To understand why, and the implications for multi-unit operators, let's look at how far along we are toward financial recovery since 2008.

History confirms that, following a major economic downturn precipitated by a financial crisis, there usually are three phases in the lending cycle. The first is lending contraction, which we experienced from 2008–2010. Since banks can't accurately predict the value of their lending portfolios immediately after a crisis, they (and the regulators) can't determine the amount of capital they should have to support loan portfolios. Not losing money trumps trying to make money, which banks do by lending. Therefore, lending shuts down, and with it access to capital.

Phase two is a transition for lenders from (1) not losing money to (2) starting to make money by lending. This phase begins with a big imbalance in deposit-to-loan ratios. This is where we are today. Banks have several trillion dollars more in deposits than loan assets, pressuring them to start making money again. As we move through phase two, lenders begin to respond to that pressure by initiating very conservative lending to proven operators.

For most multi-unit operators, this is good news—and a great time to seek expansion, remodeling, and refinancing capital. The reason media reports seem confused about capital access in this phase is that they hear from experienced operators that banks are beating each other up to offer better terms. Some in the media conclude that the lending good times are back; and they are right, if only for experienced operators who represent relatively low risk as viewed by bank credit committees. As we move through phase two, think of small-business credit access as a "Tale of Two Cities."

Progression through phase two is also marked by much more active SBA lending. From a credit committee perspective, taking on greater credit risk during a weak economic recovery is not appealing, even with a higher potential interest rate return. However, being able to protect 75 percent of higher-risk loan assets is a bit more attractive, which is why we see a lot of SBA activity in this phase, and which will continue well into the next phase.

Phase two ends when lenders start moving out on the lending risk curve with conventional (as well as SBA) loans to borrowers possessing less financial strength and demonstrated operational track records (this means new franchisees and one-, two-, and three-unit franchisees). The move to conventional lending is seen when credit committees offer to approve riskier borrowers… if they are compensated for doing so. Thus, when we start seeing a range of interest rates and term sheets that depend on perceived borrower risk, we know we are entering the third phase, when loan demand and loan supply are in balance.

As noted, the media seem to be confused about the current state of capital access for small businesses. For example, they quote the lowest-risk operators who are getting lots of interest from banks, while missing the majority of small businesses that don't. Further mixed messages come from larger banks that say small businesses aren't interested in borrowing. On the surface, that seems to make some sense. After all, larger corporations have deleveraged over the past six years and have lots of cash. Why shouldn't small businesses do the same? Some have. But we know that while small businesses are more nimble and opportunistic than their larger corporate battleship brethren, they have much less ammunition in the form of capital—and many still can't get it.

As we climb slowly, inconsistently, and uncertainly into the new economic era, many franchised small businesses are ready to pounce as opportunities arise. Whether expanding or acquiring, opportunities are there, and the indefatigable American business optimism is pushing small businesses up the economic mountain. Those with solid performance are already in good shape for capital access. We need a couple more years before that's true for small businesses that are new, emerging, or cash-flow challenged.

I recently spoke to an organization of credit risk officers from large banks. They validated the above views, but also added an additional aspect to my thinking: small businesses should not look for large banks to lead the movement out of phase two. These banks, overseen by the Federal Reserve and the Office of the Comptroller of the Currency, operate under such intense regulatory reporting pressures that a serious, unintended consequence is that they have been backed into not taking on much lending risk.

For new and emerging franchisees, your path to capital access will first go through smaller banks, non-bank lenders, and the SBA lending units at banks of any size. For good multi-unit operators, however, it is the best of lending times. And for those whose success still lies ahead, the good news is we're off the capital access bottom; but for the next couple of years, be prepared to hear "no" a lot before you encounter a "yes."

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

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June 25-26, 2013

3rd Annual Franchise Consumer Marketing Conference,
The Ritz Carlton Buckhead, Atlanta, GA
Attendees: Franchisors; CEO's, Presidents,
Chief Marketing Officers & Marketing Managers

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE

October 9-11, 2013

15th Annual Franchise Leadership & Development
Conference Intercontinental Hotel, Atlanta, GA
Attendees: Franchisors; CEO's, Presidents & Senior
Development Officers

FranchiseUpdate
MEDIA GROUP

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