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Multi-Unit Franchisee

ISSUE IV 2013

■ **COUNTER CULTURE**
How well do your front-line employees represent your culture?

■ **TOP MSA RANKINGS**
Franchising's biggest U.S. markets and the operators who dominate them

Dominating Forces!

Six multi-unit operators take command of their markets

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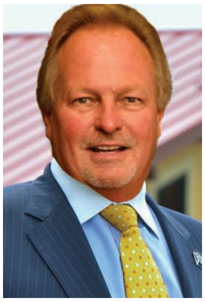
Multi-Unit Franchisee contents

ISSUE IV, 2013



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DESIGN & PRODUCTION
www.petertucker.com

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CONTRIBUTING EDITORS
Jon Clark
Nate DaPore
Darrell Johnson
Steve LeFever
Jack Mackey
Carol M. Schleif
Jim Sullivan
Thomas J. Winninger
Dean Zuccarello

CONTRIBUTING WRITERS
Debbie Selinsky

ADVERTISING AND EDITORIAL OFFICES:
Franchise Update Media Group
634 N. Santa Cruz Ave., Suite 200
Los Gatos, CA 95030
Telephone: 408-997-7795
Fax: 408-997-9377

SEND MANUSCRIPTS AND QUERIES ABOUT STORY ASSIGNMENTS TO:
editorial@fumgmail.com

franchiseupdatemedia.com
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FOR SUBSCRIPTIONS EMAIL
sharonw@franchiseupdatemedia.com
OR CALL 408-997-7795

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Get Involved!

As your company grows, so do your influence and responsibilities. In the beginning, we concentrated a lot on operations, customer service, and a clean store. Along the way, we got big enough so we could finally hire an operations manager. We eventually brought on an administrative assistant. Maybe we hired regional managers for our stores. So what is our job as owners now?

I think we have the responsibility to be strategic. We start to look for new deals, negotiate new leases, and seek out other concepts to add to our portfolio. We still direct our staff in the stores who are making things happen daily. Our job now is to figure out how to make our empire better, and how to make franchising better. Neither of these may be considered a profit center because they don't have a concrete return tied to them. But in the long run they make a significant difference to our bottom line.

This year I testified in front of Congress two times. My last time was in front of the House Ways and Means Committee regarding the Affordable Care Act. Politicians have to know how their regulations affect us as business owners. They have to hear it directly from our mouths and get the pulse of the business community. I'm sure you have heard about the "bubble" they live in… it's true! Being in Washington, D.C., and advocating for franchising is an important step to the success of our business.

Last month, I traveled to California to speak to legislators there about an onerous bill that was being introduced in the state. The wording in the bill sounded like it was going to help franchisees, but in the end it would have hurt the relationship between the franchisee and the franchisor by opening up huge opportunities for everyone to selectively pick what part of a franchise agreement they didn't want to follow. The bill *did not* get introduced as legislation this year, so we scored an important victory!

How much have you participated with advising your franchisor? Being on advisory councils, associations, and working committees with your franchisor is the best way to affect, and know about, change that is happening within your brand. I have heard so many franchisees complain about what comes out of "corporate." These are usually the same ones who don't want to get involved.

As a multi-unit owner, you have a much stronger say in what happens with the brand you have invested so heavily in. I have served on operations, marketing, POS, FDD, new store design, construction, and focus group committees… just to name a few. I have tested new products and equipment and gave the franchisor feedback of how their proposed change will affect franchisees. Get involved!

For the past year I've also served as Chair of Franchise Update's Multi-Unit Franchising Conference—an opportunity that put me in front of hundreds of franchisors and thousands of franchisees. I was able to network to learn more about opportunities for my portfolio. I was able to mentor others on best practices in franchising. I learned so much from all of you. I hope I also left you with something to consider.

Sean Falk

2013 Franchise CONSUMER MARKETING CONFERENCE

✓ CONFERENCES *Consumer Marketing Conference Grows Again!*

The Franchise Consumer Marketing Conference (FCMC), which began three summers ago as an intimate gathering of leading franchise marketing executives, has grown rapidly each year, reflecting the growing importance of consumer marketing to the continued growth of franchising. Record attendance rose 69 percent to 320 in 2013, including 168 franchisors (up 88 percent), and the Sponsor Networking Gallery—heavy on technology solutions—quickly sold out, requiring a change to a larger venue for next year. The 2014 FCMC will return to Atlanta, expanding into the InterContinental Buckhead to accommodate the growing interest in—and growing importance of—consumer marketing and its role in franchise system expansion. For a look back at the 2013 FCMC and a preview of next year's conference, June 24–25, 2014, visit ***www.franchiseconsumermarketing.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/

✓ 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/***

✓ BE PREPARED *(and then some!)*

"Whatever capital you think you need, double it. A five-year plan on a spreadsheet feels different when you have to live it out. It's always harder than you think it is."

—Jason Duffy, who opened his first Dunkin' Donuts store in 2008, a month before the Great Recession; he now has 51 Dunkin' stores in four Western states.

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Sometimes you have to look beyond the obvious to discover the opportunity.

These annual numbers are for the year ending December 31, 2012 for our top 195 company stores that have been operating for at least two full years as of January 1, 2012, which accounts for 22.9% of total company stores surveyed per our 2013 FDD's Item 19. Of these 195 stores, 68 (34.9%) had higher average sales, and 93 (47.7%) had higher average pre-tax cash flow. CAUTION: These figures are only estimates of what we think you may earn. There is no assurance you'll do as well. If you rely upon our figures, you must accept the risk of not doing as well.

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- **Eliminating paper paychecks and paystubs through epayroll**
- **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.

> *"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

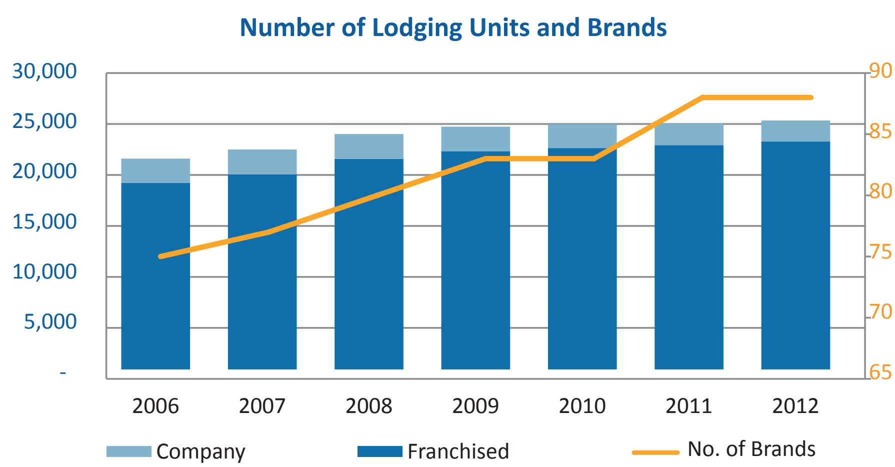
By switching to WEX rapid! PayCard, Western Restaurants eliminated paper checks entirely, and created long-lasting benefits, including:

- 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

Franchising in the Lodging Industry

As of 2013, 88 franchised lodging brands operated in the United States. Since 2000, their number has increased at a CAGR of almost 3%. One of the oldest brands, Hilton, was founded in 1919 and began offering franchises in 1965. More recent additions to the fold include My Place Hotels of America, founded in 2011.

However, new does not necessarily mean having no history, or being independent. My Place exemplifies typical trends in this space. It may be a new brand, but co-founder Ron Rivett also co-founded Super 8 Motels in 1974, and the current president is his grandson, Ryan. Today Super 8 is one of 14 franchised hotel brands owned by Wyndham International.



Similarly, Home2 Suites, which started offering franchises in 2009, is owned by Hilton Worldwide, which also owns 10 other franchised brands.

In short, there is hardly an independent hotel brand around any more. Today, 81% of franchised lodging brands are part of a larger system, and nearly 50% of lodging brands in the U.S. are owned by only four companies: Wyndham International (16%), Hilton Worldwide (11%), Choice Hotels International (11%), and Marriott International (10%). Combined, they operate more than 16,600 (almost 75%) of all franchised hotel locations in the U.S.

In terms of total locations, the largest brands in 2012 were Holiday Inn (2,466), followed by Comfort Suites (1,942) and Super 8 (1,773). They are owned, respectively, by InterContinental Hotels, Choice Hotels, and Wyndham International.

Between 2006 and 2013, the 88 brands increased their number of total units at a CAGR of 3%. However, the recession hit lodging brands hard: growth rates fell from 5% compounded annually between 2006 and 2009 to zero for the years 2009 to 2012. In 2010, the industry came to a screeching halt, as the number of franchised locations barely held on to 2009 levels and hotels dropped their number of company-owned locations by 10%. In 2009, three new concepts started offering franchises, and no newcomers entered the market until 2011, when another five joined the industry. Since that year, no new brand has started offering franchises.

One noteworthy development over the 2009 to 2012 period is that while brands shed company-owned locations at a compound annual rate of 8%, growth in franchised locations ensured that total unit numbers did not fall by increasing at a CAGR of 3%.

Measured by the growth of their combined franchised locations between 2006 and 2012, Hyatt Corp. grew the fastest. Guesthouse International, Carlson Companies, and Wyndham grew at slower CAGRs of between zero and 1%, compared with the industry-wide rate of 3%. Starwood Hotels and Marriott grew at CAGRs of 8% and 7%, respectively.

Based on brands for which consecutive information was available, Hotel Indigo grew total locations the fastest between 2006 and 2012 at a CAGR of 37%, followed by Value Place (32%) and Hyatt House (20%). Three of the five fastest-growing brands over the period are owned by InterContinental Hotels. The trailers in the franchised lodging space are Ramada and Howard Johnson: the total number of Ramada locations decreased at a CAGR of 4%, while Howard Johnson dropped locations at a rate of 3% (all were franchised locations, as neither brand operates company-owned hotels).

FRANdata *is an independent research company supplying information and analysis for the franchising sector since 1989. Contact the company at 703-740-4700 or www.frandata.com.*

DOMINATORS

BY KERRY PIPES

Dominator Operators

Six multi-unit franchisees tell how they take on territories and own them!

For many multi-unit franchisees, domination is the goal. In this annual feature, we profile franchisees intent on being the big fish in their market. We tracked down six busy, growing multi-unit franchisees, including two we've spoken with before, to see how far they've come. These operators aren't interested in just opening a store or two, they want to be *the* player in their territories—whether that means opening more stores or adding new brands (or both). And if their territories are full, they're willing to look beyond to new markets.

We've asked them why they've chosen their brands, their territories, how they've strategized for longer-term growth, and what they see for the future. They are tactical, savvy, and love setting big goals and overcoming challenges.

Every time we compile this annual issue, we discover new tales of determination, turnarounds, shakeouts, and hard-headed expansion. These six profiles highlight operators who also are passionate about their business, their employees, and their customers. Here's a quick look at this year's Dominators:

• **Mary Lynn Carraway** runs 74 Domino's Pizza restaurants in the Washington, D.C., market. While she definitely dominates her market, she operates her 1,800-employee business with a gentle hand that has led to remarkable success. Eight years after her husband (the original franchisee) died, she took over the business. Today, her company, Domino's Team Washington, is number-two in the system in profitability, second only to an organization with more than double her number of stores.

• **Jason Duffy** is just 38 years old, and he's taking the West by storm with Dunkin' Donuts, and nothing has stopped him, not even the Great Recession. He opened his first unit in Phoenix on Aug. 15, 2008, a month before Lehman Brothers failed. Duffy survived, and thrived, and today operates 51 Dunkin' stores in Arizona, Nevada, Colorado, and California. He's definitely one to watch.

• **Charles Haney** understands the power of people. The New Jersey-based multi-unit franchisee interviewed 800 people before handpicking a crew of 60 for his first Melting Pot restaurant. Since then, he's opened a Rodizio Grill Brazilian Steakhouse and, more recently, a Burger 21, with more on the way. The 35-year-old has been named Franchisee of the Year and has become a die-hard advocate for franchising at Front Burner Brands. We're expecting big things from this young buck.

• **Eric Holm** owns 30 Golden Corral restaurants that generate $155 million in annual sales and provide jobs for more than 3,000 people in Georgia and Florida. But it wasn't always peaches for this operator. He's filed for bankruptcy twice during his career, but when he discovered Golden Corral he got his groove back. Today, 17 years later, he knows how to turn around under-performing stores and is an eight-time Franchisee of the Year winner.

• **Charles Loflin** has faced personal turmoil since we last spoke with him in 2009: his wife was diagnosed with cancer. Although she beat the disease, Loflin says it changed his perspective on life and business. He's spending more time with his wife and children, but he still has the fire to grow his Wingstop franchise operation. Lately, he's been pushing beyond his Texas markets into Phoenix, where five of his 35 units are located, and he plans to open between six and eight more there by the end of 2014.

• **Charles Smithgall** sets big, hairy, audacious goals. "We're right in the middle of a 10-year goal to grow to 200 stores, $250 million in net revenue annually, $20 million in net profit annually, and to create 25 millionaires within our system," he says. And we believe it. When we spoke with him in 2008, he had 61 Aaron's stores; today he has 105 in 10 states. At 71, he's preparing to hand over the reins to his son, but until then, it's full speed ahead.

Also in this issue you'll find a list of U.S. MSAs with the most franchised units, as well as the dominant franchisee organizations within each state and region. Maybe these numbers will inspire you to dominate your market! MUF

BY DEBBIE SELINSKY

Compassionate Leader

Domino's franchisee dominates with a kind and gentle hand

Mary Lynne Carraway's 74 Domino's Pizza restaurants may dominate the Washington, D.C., market, but she runs her 1,800-employee business, Domino's Pizza Team Washington, with a kind and gentle approach.

For example, the mother of four—who stepped into the company's leadership position after the death of her husband David from brain cancer—was the first to comfort the family members of two employees who were shot on the job and to assure nervous employees that all possible safety measures were being taken to ensure their well-being.

"Since I've been doing this job, there have been deep, hard places I've had to go. When someone gets hurt, it's crushing," she says. "You go on, but your heart never stops feeling the sadness for the others going through such difficult things."

Carraway was still mourning the loss of her husband when she took over the operation he'd built with Frank Meeks. "Before he started losing his memory, David told me he wanted me to take over and continue this legacy for our children. I knew it was the right thing to do and that there were great people on the job to help me, but it was quite a tender time. I had some background working in restaurants and had been a manager for Marriott Hotels and thought my people skills would serve me

NAME: Mary Lynne Carraway

TITLE: President and majority owner

COMPANY: Domino's Pizza Team Washington

NO. OF UNITS: 74 Domino's Pizza

AGE: 48

FAMILY: Four children: Molly, Carson, Brandon, Hannah

YEARS IN FRANCHISING: I was married to someone in franchising for 27 years and I've been the franchisee for 8 years.

YEARS IN CURRENT POSITION: 8

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Source: Nation's Restaurant News 2013

Dunkin' Donuts Ranked #1 in Coffee & Baked Goods Category
Source: 2011-2013 Entrepreneur Magazine

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"David told me he wanted me to take over and continue this legacy for our children. I knew it was the right thing to do and that there were great people on the job to help me."

well," she says. "It was a challenge to learn the business and the people, and my ability to do that came to me through a higher power. I learned to do as much as I could in a day and then come to a peaceful place with knowing I'd start back tomorrow."

Carraway's situation was a first for Domino's. "I understood that they might be hesitant about having a stay-at-home mom take over the running of this large organization. When they agreed, it set a precedent. I was thankful to be part of that change," she says.

Though she went from being a stay-at-home mom to being a full-time executive, Carraway refused to hire a nanny for her children. "I knew that David wouldn't want me to continue to grow the busi-

ness at the expense of our children, so I learned to work while they were asleep and at school," she says, adding that both of her sons are interested in working in the business.

Eight years later, Domino's Team Washington is number-two in the system in profitability, second only to an organization with more than double her number of stores. Carraway sits on Domino's Pizza Board Worldwide and is the recipient of both franchisor and IFA awards. "I'm not this highly intelligent person with business degrees, but I came with a different perspective, no politics. I just said what I believed was right," she says.

Carraway encourages other women to take a good look at franchising. "I tell

PERSONAL

First job: I worked in my family's restaurant growing up, but my first job away from home was as a front office manager for Marriott Corp.
Formative influences/events: My parents with their strong work ethic and integrity.
Key accomplishments: Raising my kids and being a mom. I'm proud of what we've done with the company, but family is always my first priority.
Biggest mistake: Not believing in myself earlier on. I had not had enough experience then to realize that anybody can do anything if they work hard and believe.
Smartest mistake: When I decided to take our company debt-free, a lot of people told me it was a mistake. They said a company this size should never be debt-free. However, I knew it was the right thing to do, and that was borne out recently when we were able to get fantastic loans to buy 14 new stores. I was told that the loan was possible because we were debt-free.
Decision I wish I could do over: Some hiring decisions.
Work week: I try to work when the kids are in school so I can be there when they're home at night. However, when there's an emergency, I'm on call 24/7 for that.
How do you spend a typical day? I'm in the office Mondays, when I meet with regional directors to go over all that happened over the past week, and Tuesdays, when I go over leases with the staff. Then I get out into the stores. It takes about a month and a half to visit them all, so I take it by region. I'm always trying to connect more with store managers to let them know I'm here and interested in what they're doing.
Favorite fun activities: Anything I do with my kids. I'm also a runner and I love to read and cook.
Exercise/workout: I go to spin class three times a week and run a couple of days or walk the canal about 7 miles. I run stairs, do a lot of cross-training, and have run marathons and triathlons.
Favorite tech toys: I don't know how I'd live without my iPhone.
What are you reading? I am currently reading *The Infinite Atonement* by Tad R. Callister. I'm not one to read a lot of business magazines or books on how to get ahead. I believe if you're a good person and you keep spiritual balance in your life, all other things will fall into place.
Do you have a favorite quote? You never know how strong you are until being strong is the only choice you have.
Best advice you ever got: Be true to yourself and your values.
What gets you out of bed in the morning? My kids. We have early morning church school before high school, so we're up early.
What's your passion in business? Making sure that not only do we keep our customers happy, but that we keep our employees happy as well and let them know we care about them. I believe in being kind and treating everyone well.
How do you balance life and work? Everything I do, I try to do while the kids are sleeping or at school. I answer email and phone calls after they're in bed.
Last vacation: I took my boys to Haiti on a service mission.
Person I'd most like to have lunch with: David Bednar, former president of Brigham Young University-Idaho. He's an amazing person and motivator.

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DOMINATORS

She believes David would be proud of what she and Team Washington have accomplished. "But I think he'd be even more proud of the work/life balance I've worked hard to strike."

women: 'You have a special strength that comes through the creative, gentle way we use our power. Integrity will get you further and help you accomplish things that others may not. There's power in being a leader who has compassion and can even cry with employees about something. We're still competitive at Team Washington, but we're like a family.'"

A devout Mormon, Carraway says that some of her most rewarding times come from reading about spirituality, spending time with her children, volunteering in the community, and chatting with employees about their families. She believes David would be proud of what she and Team Washington have accomplished. "But I think he'd be even more proud of the work/life balance I've worked hard to strike. In the end, relationships are what matters most." MUF

MANAGEMENT

Business philosophy: Don't ask somebody to do something you wouldn't do. And do ask as kindly as you can.

Management method or style: I have an open-door policy; our employees can talk to me about anything and they know I'll be fair. I try to lead by example.

Greatest challenge: Keeping a deep enough bench of people coming up in management and keeping good people in the stores.

How do others describe you? Energetic, happy, positive, a motivator, honest, giving.

One thing I'm looking to do better: My focus right now is being better connected to all our stores. We have so many now that I'm trying to find the balance and spend more time in the stores.

How I give my team room to innovate and experiment: If my regional directors and vice presidents have ideas, they share them. We're very open and go back and forth easily. We learn from each other. I send them to other regions and places to see what they're doing—I expose them to a lot of different things. If they come up with a good idea, they can run with it. They're the ones on the ground and I trust them.

How close are you to operations? On a day-to-day basis, I leave that to my managers and regional directors. In terms of seeing all our stores in operation, I do that as often as I can.

What are the two most important things you rely on from your franchisor? Strategic marketing and good products, and they give us that.

What I need from vendors: Best pricing and effective products.

Have you changed your marketing strategy in response to the economy? How? We're running lower pricing, but that's something that comes from corporate. On local marketing, we're doing email blasts and mailers.

How is social media affecting your business? It's amazing in this industry that we have stores with 60 or 70 percent of orders coming from the Internet. There used to be people flying all over the place and on the phone in the stores. Now there's hardly a phone person. You walk around and just hear these beeps when orders come in. It's a change that's both good and bad.

How do you hire and fire? On the store level, the managers through the regional directors do all the hiring. In my office, I do the hiring and firing. We've hired a lot of different ways; some of our best hires have been through word of mouth. As for firing, there's a large turnover on the lower salary scale, but in eight years, I've only fired two people and no one has left because of me.

How do you train and retain? Training is important. We're known as the best trained group in the system. Through extensive training, the best managers become the best supervisors and pass that on. We retain good people because we have a great bonus system. Our managers make incredible money because they take ownership and get a percentage of the store's profit. Some make over $100,000 running Domino's stores. It's the American Dream without having to put your own money into it.

How do you deal with problem employees? We address problems immediately and try to be as fair as we can. We do an investigation and hear all sides. Sometimes it's easy to resolve and sometimes not.

Fastest way into my doghouse: Any kind of aggressive, negative behavior and lying, theft, and disloyalty.

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*Figures reflect averages for eighteen (18) affiliate-owned restaurants that opened before January 1, 2008 as published in Item 19 of our April 2013 Franchise Disclosure Document. These averages are based on a 52-week annual period from January 4th, 2012 through January 1, 2013. Of these eighteen (18) restaurants, 8 (44%) had higher gross sales, 9 (50%) had higher food and paper costs and 7 (39%) had higher net profit during the reported period. The financial performance representation contained in Item 19 of our April 2013 Franchise Disclosure Document also includes (1) average system –wide gross sales, average franchise gross sales, and the number and percentage of restaurants exceeding these averages during the referenced period and (2) average gross sales, average food and paper cost, and average net profit information during the referenced period for affiliate-owned restaurants that were opened after January 1, 2008 and before January 1, 2012.

A new franchisee's results may differ from the represented performance. There is no assurance that you will do as well and you must accept that risk. This offering is made by prospectus only.

"I stepped in to keep my husband's legacy alive for our sons. One has been working in our stores since he was 14, and another is just getting into it."

BOTTOM LINE

Annual revenue: $75 million.

2013 goals: We bought 14 new stores last year, so we're trying to adjust. The bottom line is that we want to continue to deliver great pizza in 20 minutes or less.

Growth meter: How do you measure your growth? By growth per store, but we're always shooting for higher profitability and watching food and labor costs. We see the numbers weekly and compare them to the year before.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, I'd like to keep having healthy profitability and growth. In 10 years, I'd like to be sitting at the board level, watching over my children running the business. One of the reasons I stepped in was to keep my husband's legacy alive for our sons. One has been working in our stores since he was 14, and another is just getting into it.

How is the economy affecting you, your employees, your customers? Customers aren't as loyal as they used to be, but I see it coming back with our great service. In an economy where there's belt-tightening, customers go to the lowest price. There have been price wars and couponing to death, which is not really a healthy place to be. I think we're coming out of that.

Are you experiencing economic growth or recovery in your market? We're lucky in this area—D.C. seems to be a little resistant to recession. With the government on furlough, there's been a negative impact on Andrews Air Force Base, but D.C. generally is pretty stable. Even in a bad economy, people still get Friday night pizza for their kids.

What did you change or do differently in this economy that you plan to continue doing? I'm a firm believer in paying your debts; not having the stress of huge debt is what's kept us successful. We'll continue to do that.

How do you forecast for your business in this economy? Our marketing team sees the trends and patterns and we get feedback from corporate. Our brand, No. 1 in service and No. 1 in product, is really strong right now, so we're better prepared than ever to handle the future.

Is capital getting easier to access? Why/why not? I think it is easier if you have your act together. I haven't done it a lot, but with our last venture there were some really impressive banks wanting to do business with us. We're working with PNC, which is a really great bank.

Where do you find capital for expansion? I don't go to partners. We use our own money and bank loans.

Have you used private equity, local banks, national banks, other institutions? Why/why not? PNC is a national bank that offered us a great situation.

What are you doing to take care of your employees? We offer great bonus plans and healthcare. Beyond that, we're making sure they're working in a safe environment. We're training them so they can be efficient and safe and make more money.

How are you handling rising employee costs (payroll, healthcare, etc.)? I don't agree with Obamacare, and I'm not sure how things will look in the end, but we're always shopping around for insurance and medical plans.

How do you reward/recognize top-performing employees? We reward them with our bonus system and fun events like family picnics and Olympic competitions between regions. We just took our two top-performing groups to a baseball game where we sat in the Coke suite. Our supervisors are going to Hawaii, and we give gas cards to great drivers.

What kind of exit strategy do you have in place? As I said, I plan on semi-retiring onto the board and letting the children take over. If they decide to do something different, I may divide the areas up and see if some of our people would like to buy in and be partners. We have a great team.

BY DEBBIE SELINSKY

Go West, Young Man!

Dunkin's young Western pioneer learns to thrive in a tough economy

Jason Duffy may be only 38 years old, but he could write a book about being successful in business during tough economic times. After all, as he says, "That's all I've known as a franchisee, since I opened my first Dunkin' Donuts store in Phoenix on Aug. 15, 2008 during the worst economic times in 50 or 60 years."

Having survived his baptism by fire and come out ahead, Duffy, recently named one of the "40 Under 40" to watch by the *Phoenix Business Journal*, now has 51 Dunkin' Donuts stores in four western states, Arizona, Nevada, Colorado, and California.

His path to franchising began with a fateful meeting nearly 20 years ago with Jon Luther, who would later become president, CEO, and chair of Dunkin' Donuts. A 19-year-old Duffy, who was working his way through college, had started a gutter-cleaning business. At one of the doors he knocked on, he met Luther, who hired him and spoke with him about hustling and paying his way through college.

Then Duffy had an accident, falling from a ladder and, in the process, damaging the side of Luther's house. "He had to fly out the next morning, and I assured him that I'd take care of everything," Duffy recalls. "He didn't know me or what would happen, but he went on his trip, and when he returned everything was done."

Through the years, the two stayed in touch as Duffy graduated with a finance degree from West Virginia University and Melbourne (Australia) Institute of Technology. Luther became something of a mentor to the ambitious young man who had helped care for his blind mother since childhood.

Later, in 2007, when Duffy was working in the finance industry, he "saw the handwriting on the wall" and decided to change professions. Cue Jon Luther. "I reached out to him, and he said he had an opportunity in Phoenix because Dunkin' was looking to open stores out West. I accepted, and this was my first foray into franchising."

NAME: Jason Duffy

TITLE: Managing Partner

COMPANY: First Cup LLC (Southwest Bakery Group, Wholesale Service Exchange)

NO. OF UNITS: 51 Dunkin' Donuts

AGE: 38

FAMILY: Wife Erin and three children, Olivia, Sam, and Miley

YEARS IN FRANCHISING: 6

YEARS IN CURRENT POSITION: 6

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!

If Duffy wrote an instructional manual for would-be franchisees, he says it would contain many of the lessons he's learned navigating the economic downturn. "First, I'd tell them, 'Understand the dynamics of the business you're getting into, and do that well in advance of making a commitment. Due diligence should include talking to existing franchisees who are willing to share information.'"

New franchisees should also "plan for the worst," he says. "Whatever capital you think you need, double it. A five-year plan on a spreadsheet feels different when you have to live it out. It's always harder than you think it is."

Another tip: find a good partner. In Duffy's case, that would be Bert Hayenga. "He is honest, hard-working, and a genuinely great person," says Duffy. "We work extremely well together and our skill sets complement each other, which enables us to get more done and enhance our productivity."

Duffy, who is excited about continuing to grow with Dunkin' and his team, also offers a piece of personal advice: "Always surround yourself with good people, take on challenges outside your comfort zone, and live every day to the fullest." MUF

PERSONAL

First job: Newspaper carrier at about 10, and then worked in a pizzeria at 16.

Formative influences/events: When I was in second grade, my mom lost her vision. Her strength influenced me, and I became a more independent person early on. I became more aware of people and surroundings and issues earlier than somebody else without obstacles in their early life. Sports also played a big role in my life. I played football and basketball and learned about teamwork, losing and winning, and dealing with challenges. Meeting my wife in college was another major event. I guess there have been a lot of things that formed me.

Key accomplishments: First and foremost, I'm most proud of my beautiful wife and three beautiful children. I'm proud of the work I did when I started building my stores—the economy was the worst it had been in the last 50 or 60 years when I opened my first store in Phoenix on Aug. 15, 2008. Having survived a lot of challenges and lived through them with the brand, I'm proud of what I've learned and overcome.

Biggest mistake: I have no major regrets. One of the lessons I learned from 2008 and 2009 is to be careful in making certain assumptions, especially around debt. There was a lot of stress during that time, and I learned to be prepared if things go bad.

Decision I wish I could do over: Now, I always try to live life to the fullest on a daily basis. I wish I had gotten here sooner.

Work week: As we were expanding and growing, there were a couple of years when I worked six or seven days a week. However, in the last 18 months, I've been a lot more aware of putting the phone down and spending time with the family. My hours are different every week, and I try to work from home at least one day a week. I drop in on the stores and talk to customers and employees, but I don't schedule those visits (by design).

Favorite fun activities: I love playing basketball and running, and I do a lot of that. I take the kids fishing—they have a ball doing that. We also take them hiking and camping—we're an outdoor family. The beach is right up there, too.

Exercise/workout: Running, basketball, lifting weights.

Favorite tech toys: I'm not a huge tech guy, but I use my iPod every day when I run, and I also use my iPad a lot.

What are you reading? *The Goal: A Process of Ongoing Improvement* by Eli Goldratt.

Do you have a favorite quote? I find myself saying this a lot: "Just get a little bit better every single day, every week, every month, because when you stop getting better, results start to slide."

Best advice you ever got: My dad told me, "Show up and work hard."

What gets you out of bed in the morning? A Dunkin' cup of coffee.

What's your passion in business? I most enjoy negotiating deals.

How do you balance life and work? By understanding the priorities of the day and not compromising on my commitment to spending family time and getting exercise.

Last vacation: We were at Del Mar beach in San Diego in July.

Person I'd most like to have lunch with: Herb Kelleher of Southwest Airlines or Warren Buffet.

MANAGEMENT

Business philosophy: People make the difference; people are the company. Without the right people doing the right things with the right motivations, we don't have anything. Our 1,200 employees make a difference every day, and we always want to lean in and do what's right for them, help them grow their careers, and provide environments where they want to stay.

Management method or style: I'm a planner and like to make sure everyone understands our goals and responsibilities. Then I'm a doer, but with the right people in the right positions. You burn out if you try to do everything yourself.

Greatest challenge: Building and growing the organization with people who match the positions they fill. It's amazing to me to see what one individual can do. I tell our team that, and it may sound corny, but I've seen it happen so many times.

How do others describe you? Hard-working, reliable, and diligent, but with a sense of humor. If I don't understand something, I speak up.

One thing I'm looking to do better: I'm always looking to forecast out and plan better. The more you plan and the better your plan, the more you succeed and hit your goals.

How I give my team room to innovate and experiment: I let my team do what they do. The biggest thing is that I listen when they come with an opinion. I ask questions and probe to help us all get a better understanding. Sometimes it leads to experimenting and not being afraid. It's okay to make mistakes in our company. You just have to own it and move on.

continued on page 28


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"People know we have some of the best iced coffee, but they may not know we sell more bagels than anyone in the country."

MANAGEMENT, continued

How close are you to operations? Very early on, I was very close. Now with the scope and responsibility and our COO, I'm less close. I provide feedback but don't step on his toes. With new stores, I'm close with all that goes into them until they open.
What are the two most important things you rely on from your franchisor? Marketing is at the top of my list, and then innovative product offerings.
What I need from vendors: Honesty and the lowest cost possible.
Have you changed your marketing strategy in response to the economy? How? We've always been a value-driven brand. And for us in the West, we've always been in a bad economy. Our marketing has focused on driving awareness of what Dunkin' Donuts has to offer. We provide a great donut but also a lot of other products. Stores on the East Coast seem to be more beverage-based, while in the West we're split between beverages, bakery, and sandwiches. People know we have some of the best iced coffee, but they may not know we sell more bagels than anyone in the country.
How is social media affecting your business? It just makes customers more nimble about providing responses—good or bad. I take all feedback, and try to respond and promote our business through messaging and social media. It's another tool in our toolkit.
How do you hire and fire? I don't do a lot of that.
How do you train and retain? We have a training program set up in the stores, and the biggest conversation our team has every month is about providing the best possible environment for our employees. We retain by offering the most competitive pay we can afford.
How do you deal with problem employees? We assess the problem and get a game plan in place to put measurable results around fixing the problem. We follow up on that to ensure the problem is fixed.
Fastest way into my doghouse: Not doing what say you say you'll do.

BOTTOM LINE

Annual revenue: $35 million-plus.
2013 goals: Increase of 10 percent comps, 10 percent cost reduction, and 10 percent increase in operating income.
Growth meter: How do you measure your growth? By comparable sales over the year and managing costs versus the previous year. Since we're also an entity that continues to expand, we make sure we're meeting current store commitments and keeping good employees in the pipelines.
Vision meter: Where do you want to be in 5 years? 10 years? I like what I'm doing, so I'd like to be in a similar position with continued growth—with close to 75 stores—and working with the same people 5 years from now. In 10 years, I'd like to continue to grow and expand, but have a greater work/life balance. I have no real interest in slowing down at this point.
How is the economy affecting you, your employees, your customers? The economy is getting better, especially in the last 12 months, across our different markets. On one hand, it's great because more consumers are willing to spend more and come more often. On the other hand, it makes the job market more difficult and we have to make sure we offer paths of growth to attract employees.
Are you experiencing economic growth or recovery in your market? We've had a lot of stops and starts but things seem to have stabilized. There are more positive signs than negatives.
What did you change or do differently in this economy that you plan to continue doing? We'll continue to be maniacally focused on our customers and on driving awareness of our products.
How do you forecast for your business in this economy? We look at different compensating factors. Because we're still growing, we have to weight new stores with existing stores, but we expect to have between 3 and 5 percent sales growth on an annual basis in any given market.
Is capital getting easier to access? Why/why not? Yes, there's an abundance of liquidity in the market. In the last 18 months I've seen an increase in interest from lenders, because there aren't enough strong companies to lend money to.
Where do you find capital for expansion? We're partners with GE Capital and also Infinity Franchise Capital.
Have you used private equity, local banks, national banks, other institutions? Why/why not? We've used no private equity, just our own capital with friends and family, along with national banks.
What are you doing to take care of your employees? We're providing good work environments and employment paths because we want to offer them a career, not just a job. So many people come in as crew and become shift manager, associate manager, and then manager. This can change someone's life.
How are you handling rising employee costs (payroll, healthcare, etc.)? We have a team of people focused on that. We've seen healthcare rise double digits every year since we started. The new laws are not clear and not easy to break through. Dunkin' has provided insight, but there are still some things outstanding. We do the best we can with managing all costs. If we have rising costs in one area, we try to make it up in another area.
How do you reward/recognize top-performing employees? Performance-based bonuses and monthly newsletters that call out success stories.
What kind of exit strategy do you have in place? I have no exit strategy, but in general, if we build the best company we can, it'll work out.


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BY DEBBIE SELINSKY

B-Different!

Building success by trusting his instincts

One of Charles Haney's favorite things about his new Burger 21 restaurant in Voorhees, N.J., is a wall sign that he believes lists all the best ways to succeed. One, he says, defines who he is: "B-different."

"When I was thinking about franchising, I'd looked at several systems, but when I went into a Melting Pot restaurant in California, everything—the food and non-food features—felt right. It was different from anything else out there. It spoke to me," he says. "When I went down to see the franchisor in Florida, that felt right too, because we shared the same passion and enthusiasm for the brand."

In 2007, Haney, a Boston native who sold his RainSoft water treatment company in Rhode Island after 10 years, opened a Melting Pot fondue restaurant in Atlantic City—and, along with his wife Wendy and their children, moved to New Jersey, her home state.

Haney, who describes himself as a people person who believes that human capital is the key to success in business, was not deterred by the economic downturn that hit just as he was starting his new venture. Combining his energy and natural sales-

NAME: Charles Haney

TITLE: President

COMPANY: ABL Brands Inc.

NO. OF UNITS: 1 The Melting Pot, 1 Burger 21, 1 Rodizio Grill

AGE: 35

FAMILY: Wife Wendy; children Adam, Brandon, and Leah (as in ABL Brands)

YEARS IN FRANCHISING: 6

YEARS IN CURRENT POSITION: 6

"By the end of the year, I expect to have two more locations. My four-year plan for Burger 21 is to open 15 new restaurants."

manship with a great location, a reliable staff, and a strong brand, his business has improved each year.

With administrative help from his wife, Haney spends much of his time finding and developing a great staff. He interviewed 800 people before handpicking a crew of 60 for his Melting Pot restaurant. In 2010, he was named Franchisee of the Year and has become a die-hard advocate for franchising.

"I'm all about systems," says Haney. "A company like Front Burner Brands [owner of Melting Pot, Burger 21, and GrillSmith] puts a system into place with checks and balances, training manuals, and marketing for you. I'm able then to put my strength—growing people and building teams—in there."

Outside of franchising, he adds, "You're trying to wear too many hats. With the franchises I've chosen so far, they've taken the guesswork out and let me do what I do best." He plans to open another restaurant as soon as he finds one different enough to suit him.

One year, his Melting Pot restaurant raised $35,000 in nine weeks for St. Jude Children's Research Hospital, making it the top fundraiser in the system for the hospital. From there, Haney was named co-chair of the national St. Jude fundraiser for The Melting Pot. "I have three children, so this cause really meant a lot to me. I've been to the hospital several times, donating blood and platelets. We continue to support them," he says, adding that philanthropy is consistent with his beliefs about life and people.

When Mark Johnston, president and chief concept officer at Front Burner Brands told him about a new burger concept that he and his brother Bob, the company's CEO, were planning, Haney wasn't very interested. "I thought that burgers didn't sound unique. It wasn't for me, and we didn't speak of it again until I visited the first one they opened in Tampa," he says. "I walked in and I was blown away. They had nailed it—from the atmosphere to the décor to the energy—and I hadn't even tried the food yet."

Once he'd tried the gourmet burgers, he began to "beg" for a franchise—even before Front Burner began franchising, he says. Earlier this year, he opened a Burger 21 in Voorhees, N.J., the first outside of Florida, on the same site as his third brand, Rodizio Grill, a Brazilian steakhouse based in Sandy, Utah.

Haney plans to open more Burger 21 restaurants in New Jersey, in tandem with new Rodizios, if he can. "By the end of the year, I expect to have two more locations. My four-year plan for Burger 21 is to open 15 new restaurants," he says.

Haney has no immediate plans to open additional Melting Pots. "The Melting Pot is such a specialty restaurant that you want to strategically place them, not build one on every street corner. There's one in Philly and another 90 minutes north of here. We are doing well financially with our restaurant and have no plans right now to grow."

PERSONAL

First job: Delivering the newspaper.
Formative influences/events: There have been several influential people along the way. I met Malcolm Norwood, who owned several barber shops, when I was in middle school in Boston. He was an older gentleman who took a liking to me and spent several years coaching me and teaching me life lessons. Even today, 20 years later, we have a great relationship.
Key accomplishments: I was Franchisee of the Year in 2010 for The Melting Pot Restaurants and co-chairman of the Franchise Steering Committee for 2010–2012. I really enjoyed working with other franchisees from across the country and the franchisor on every topic from marketing to food quality. It was a great learning experience and a good opportunity to offer feedback. I'm also proud of our contributions to St. Jude Children's Research Hospital.
Biggest mistake: Cheating on my girlfriends in high school (laughing).
Smartest mistake: I met my wife, Wendy, in Cancun, Mexico. I broke the rule about not carrying on a relationship with someone you met in Cancun. She was from New Jersey and I was in Boston. That was Spring 1998. Three months after meeting her, I moved to New Jersey. Fifteen years later, she's my best partner in business and in life.
Decision I wish I could do over: Nothing really that I'd do over. I've learned something from every single mistake I've made.
Work week: 8 days a week.
How do you spend a typical day? Visiting the restaurants and meeting with managers.
Favorite fun activities: I enjoy spending time with my family at the Jersey Shore in Ocean City.
Exercise/workout: This question is motivating me to go back to the gym.
Favorite tech toys: My car, an SL63 AMG—I love nice cars.
What are you reading? *Rich Dad Poor Dad* by Robert Kiyosaki.
Do you have a favorite quote? Fake it till you make it.
Best advice you ever got: Earn respect, never demand it.
What gets you out of bed in the morning? Knowing that everything I have done is not good enough.
What's your passion in business? I love growing people. Regardless of the type of business you own, your team must come first. Show them appreciation and have fun.
How do you balance life and work? By keeping everyone happy.
Last vacation: In August, we were on North Captiva Island in Florida. It was paradise, so we're buying a place there.
Person I'd most like to have lunch with: Donald Trump. I love his kick-ass business style. He's direct and to the point, no-nonsense. In fact, I downloaded a ringtone with his voice that says, "This is Donald Trump telling you to have an ego, but please keep it in check when leaving my friend a message."

Haney considers himself a motivator and visionary and makes no apologies for doing things his way. "I get advice from lawyers and accountants and am willing to pay people that know more than I do, but at the end of the day I'm going to go with my instincts," he says. "I march to my own beat."

That's also his advice for would-be franchisees. "Big risk, big rewards," he says, admitting that he makes some people—especially his in-laws—nervous with his approach to business and life. "Once they see there's a method to my madness, most people relax."

His fondest wish is to someday work with his children. "That would be the ultimate reward."

The family man says his fondest wish is to someday work with his children. "That would be the ultimate reward. They already know what I do. I bring one of them with me for manager's meetings sometimes," he says.

That wish just could come true. One of Haney's proudest moments came when his son Adam was graduating from kindergarten. During the ceremony, Adam stepped forward on his tiptoes, as instructed, to the microphone to say his name and what he wanted to be when he grew up. "Most of the kids said things like policeman or superhero," Haney says. "Adam said, 'I'm Adam Haney and when I grow up I want to work with my daddy at The Melting Pot.'" MUF

MANAGEMENT

Business philosophy: Have passion for what you are doing and show appreciation to your team. Think big and live large.
Management method or style: I do it with humor, all while being serious.
Greatest challenge: Aligning myself with others who share my same level of passion to grow.
How do others describe you? Fun and direct.
One thing I'm looking to do better: To be a better coach, father, and husband.
How I give my team room to innovate and experiment: I constantly tell them I will give my advice but the decision is ultimately on them, so they should make it count.
How close are you to operations? I receive daily reports from every manager and meet with them weekly.
What are the two most important things you rely on from your franchisor? Moral support and fun annual reunions.
What I need from vendors: To look at our relationship as a partnership and treat it so.
Have you changed your marketing strategy in response to the economy? How? Yes, we've gotten more involved in the community and focused on grassroots marketing along with traditional media.
How is social media affecting your business? I believe it is something you need to be on top of but don't think it is a key driver.
How do you hire and fire? We hire team members who display genuine hospitality and never drag our feet when it's necessary to fire someone.
How do you train and retain? We have daily team member meetings and ongoing training for employees. We stay strict with brand standards and maintain the quality of the brands I have chosen.
How do you deal with problem employees? Coach first, then fire.
Fastest way into my doghouse: Lack of integrity.

BOTTOM LINE

Annual revenue: $8 million.
2013 goals: To open more businesses and to get on the cover of a magazine.
Growth meter: How do you measure your growth? Every day, I get reports that show guest numbers, sales for the day, labor costs for the day, and whether we're up or down both in guests and sales. We also look at the same day, year over year.
Vision meter: Where do you want to be in 5 years? 10 years? I'd like to have 15 more businesses in 5 years.
How is the economy affecting you, your employees, your customers? It hasn't.
Are you experiencing economic growth or recovery in your market? Yes. Our business continues to grow since opening up The Melting Pot in 2007.
What did you change or do differently in this economy that you plan to continue doing? More marketing—it is the backbone of every business.
How do you forecast for your business in this economy? We look at our numbers daily and know that we will grow.
Is capital getting easier to access? Why/why not? Yes. Cape Bank in New Jersey has become a great partner and shares my vision for growth.
Where do you find capital for expansion? See above.
Have you used private equity, local banks, national banks, other institutions? Why/why not? I believe local relationships are better. Cape Bank has been a great partner.
What are you doing to take care of your employees? We offer annual parties and incentives. And just saying "Thank-you" goes a long way.
How are you handling rising employee costs (payroll, healthcare, etc.)? My payroll's not up. I manage my business the same way, with the same percentages on payroll line that I did when I first opened. The same is true of all of my controllables. Of course, we don't know how the new healthcare laws will affect us yet.
How do you reward/recognize top-performing employees? With trips, money, a day at the spa. You have to understand what makes people tick and use that to your advantage to move mountains together.
What kind of exit strategy do you have in place? Nothing yet. I'm having too much fun.

BY DEBBIE SELINSKY

Failed Forward

From hard knocks to Golden Corral's biggest success

By most anyone's definition, Eric Holm is a business success story. The Winter Park, Fla., resident owns 30 Golden Corral restaurants that bring in $155 million in annual sales and provide jobs for more than 3,000 employees in Georgia and Florida.

But when you ask him about his life and career, Holm is just as likely to tell you about his two bankruptcies, or the time his independent restaurant fell into a sinkhole, as he is to tell you that he is the most awarded franchisee in Golden Corral history.

"I've been broke two times in my life and I didn't enjoy either one of them," he says. "But I didn't hang out and have a pity party. I got out and went to work and tried different things to be successful. I guess you could say I actually 'failed forward.'"

So, Holm, who has been Golden Corral's Franchisee of the Year eight times and the highest-volume operator in the system for the past 15 years, urges restaurateurs and would-be franchisees to understand that failure is a learning tool. "Soak it up. Live and breathe it. Learn from it and own it,"

NAME: Eric Holm

TITLE: Owner and CEO

COMPANY: Metro Corral

NO. OF UNITS: 30 Golden Corral, 1 Daytona Pig Stand (original concept)

AGE: 57

FAMILY: Wife Diane and three daughters, Danielle, Erin, and Erica

YEARS IN FRANCHISING: 17

YEARS IN CURRENT POSITION: 17


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On Christmas, Holm can be found working alongside his employees at a local Golden Corral.

he says. "Then move on."

Holm came from humble beginnings and always worked hard. His first restaurant job was in high school, as a busboy in the restaurant where his mother was a waitress. He bought his first businesses—four Dairy Queens—when he was 21.

Later, after struggling as an independent restaurant owner for years, Holm filed bankruptcy twice before listening to his friend and former business partner, Golden Corral founder James Maynard. "He told me I should get into franchising with Golden Corral, so I did," says Holm.

He opened his first Golden Corral in 1996, and within a year turned around four under-performing stores and won his first Franchisee of the Year award. Customers and employees alike were confounded when the new owner posted his personal home phone number in the restaurant, asking people to call him with "the good, the bad, and the ugly."

Seventeen years later, Holm, who describes himself as a "risk-taker, but not a gambler," continues to lead by example. On Christmas, he can be found working alongside his employees at a local Golden Corral, and on Thanksgiving he and 1,200 volunteers serve up to 25,000 free meals at the Salvation Army.

In addition to embracing failure along with success, Holm advises franchisees to "be engaged" in their businesses. "This is not an investor-based opportunity," he says. "It's an operator's opportunity."

PERSONAL

First job: I was a busboy at Sonny's Barbecue in Gainesville, Florida. My mom was a waitress there.

Formative influences/events: My marriage and the birth of our daughters.

Key accomplishments: That I have a great family and a good midsized business that's profitable, and that I do substantial charity work. I'm on the National Advisory Board for the Salvation Army.

Biggest mistake: My biggest mistake was not getting into franchising sooner. I didn't get into it until I was 40.

Smartest mistake: I'm not sure I ever made a dumb decision and got lucky.

Decision I wish I could do over: I was an independent restaurant operator for so long—22 years—before getting into franchising. I was successful, but I've been way more successful in franchising.

Work week: I work as long as needed. I'm always a little on duty.

How do you spend a typical day? I get up and check email from home, stop by the office, and ride the stores in the Orlando area. Sometimes I get into my airplane and fly to Atlanta and ride my stores there.

Favorite fun activities: Going to our beach house at New Smyrna Beach, Florida; riding my motorcycles.

Exercise/workout: Not enough.

Favorite tech toys: iPad and iPhone.

What are you reading? Besides my store reports and Golden Corral reports, I read every restaurant magazine out there.

Do you have a favorite quote? Every day is a holiday.

Best advice you ever got: James Maynard, founder of Golden Corral and a business partner of mine when I was an independent restaurant owner, told me I should get into Golden Corral. So I did. He was right.

What gets you out of bed in the morning? The necessity to get to work.

What's your passion in business? Creating opportunities for others.

How do you balance life and work? I'm not sure I do. Just when you think you're getting that balance, some other crisis pops up.

Last vacation: Two weeks ago, I chartered a 142-foot yacht and took my wife on a birthday vacation. We started in Newport, Rhode Island and went down to Martha's Vineyard. We were going to the Hamptons, but we ran into some bad weather. We'll have to do that later.

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

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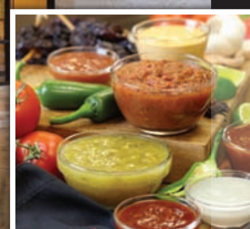

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"I want to be chairman instead of CEO in the next 5 or 10 years, but I've still got some gas in my tank."

MANAGEMENT

Business philosophy: You get out of it what you put into it.
Management method or style: We're steady managers. We manage the ups and downs pretty well and try not to get too excited.
Greatest challenge: Food costs and increasing sales.
How do others describe you? They'd say I'm aggressive on positioning. We run *to* a problem, instead of running from it.
One thing I'm looking to do better: Take more personal time off.
How I give my team room to innovate and experiment: By letting them be part of the decision-making process. We have a very inclusive process in making decisions in our company.
How close are you to operations? Very close.
What are the two most important things you rely on from your franchisor? Leadership and innovations.
What I need from vendors: Honesty.
Have you changed your marketing strategy in response to the economy? How? The economy has been soft for a long time, but most recently we've offered the $2.99 kids-eat-free after 4 p.m. Monday through Thursday, and introduced a new breakfast ($7.99 with beverage for all you can eat) on Saturdays and Sundays. We've experienced a nice traffic boost with those.
How is social media affecting your business? I'm not sure. We're just starting to understand it a little more with the corporate Facebook, Twitter, and Yelp. I know that it's going to be more and more important in the future and we're looking at it carefully.
How do you hire and fire? Very carefully. For hiring, we use a prescreening service called Connexus, and E-Verify. We use best HR practices for both hiring and firing.
How do you train and retain? We have a lot of good tools for training including computer-based training for all positions, food safety, and orientation. We're pretty good at retaining our people because we like to reward them with fair pay and some benefits, like time off. Seventy-five percent of our people are steady, long-term employees, and 25 percent turn over often. That's not bad for a company with 3,000 employees.
How do you deal with problem employees? We deal with them on a case-by-case basis. All employees have different issues.
Fastest way into my doghouse: Not taking care of co-workers and guests.

BOTTOM LINE

Annual revenue: $155 million.
2013 goals: To continue the pace of running great restaurants. We have the highest volume average in the Golden Corral system.
Growth meter: How do you measure your growth? Unit sales year-to-year and by adding new units.
Vision meter: Where do you want to be in 5 years? 10 years? I want to be chairman instead of CEO in the next 5 or 10 years, but I've still got some gas in my tank.
How is the economy affecting you, your employees, your customers? It's been a real tough road for the last four or five years. You can predict direct impact on sales by gas prices, which is the single biggest contributor to less expendable income. When gas hits $4 a gallon, sales go soft.
Are you experiencing economic growth or recovery in your market? It's slight. In Orlando, tourism is picking up. In Atlanta, when they enacted Arizona-type immigration laws, there was a big downturn in the market. Now that's flattened out and started going north again.
What did you change or do differently in this economy that you plan to continue? We increased our offerings on the buffet, giving people more than they expect for dollars spent. A lot of other companies have cut back on their offerings, but we've been adding on for the last four years and been pretty successful.
How do you forecast for your business in this economy? More prayer! We've been forecasting smaller increases in sales, and unfortunately, we're getting them. I'd like it to be better. When you have more than $5.1 million average sales per unit, forecasting percentage sales doesn't seem like a lot, but it's a whole lot of dollars.
Is capital getting easier to access? Why/why not? Capital is no problem for us because of our size, profitability, and longevity. I can remember earlier in my career when it wasn't so easy, but now we have great banking relationships.
Where do you find capital for expansion? We have a four-bank package deal with Regions Bank, GE, Wells Fargo, and Fifth Third.
Have you used private equity, local banks, national banks, other institutions? Why/why not? No private equity except my own, some local banks in the past, and now national banks.
What are you doing to take care of your employees? We provide a safe, secure work environment and give them a career path instead of just a job.
How are you handling rising employee costs (payroll, healthcare, etc.)? Like the rest of the world, we have to take the price increases.
How do you reward/recognize top-performing employees? We do many different things. We've had several employees save people from choking to death. We've given them major gift certificates to other restaurants or accommodations. We do things for top-performing employees on an individual basis.
What kind of exit strategy do you have in place? We have a great team of people who can take over. We've built a team so strong that if I have to step out for one reason or another, the business will survive on its own. The business is not dependent on me showing up, though I like to think it is.

BY KERRY PIPES

Survived—and Thrived!

Adversity teaches its own lessons

In 2009, Charles Loflin's life was in high gear and he was racking up one success after another. Then his wife got cancer.

"That was a real sobering wake-up call for me," says the 45-year-old multi-unit franchisee today, who quickly realized there was more to life than operating a successful business.

Together the Loflins faced the cancer, beat it, and his wife is now a cancer-free survivor. But that wasn't the only outcome of this life-changing event. Loflin had just opened two very successful Einstein Bros. stores and had five more to go in his agreement. He sold those stores back to the company, refocused exclusively on Wingstop, and began spending more time and energy enjoying his wife and two children.

"I'm a very driven person. I want to be the best franchisee, I want to be the most successful at what I do, I want the highest scores in the system," he says, "but not at the expense of passing up other good things in my life like my family." He says he has been blessed by "simplifying his life," and in fact, has been growing his Wingstop empire at a healthy clip since the last time we visited with him (MUF 2009, Q2).

His most recent activity has been his expansion into the Phoenix market. Five of his 35 stores are in Phoenix, and he plans to open between six and eight more there by the end of 2014. Loflin was the first franchisee to take Wingstop outside the Dallas market and has remained a dominant player in the system's Texas market. He's still based in San Antonio, with all his other units in South and Central Texas.

"The Phoenix deal just made sense for me," he says. "I'm always in contact with the corporate office and I'm always looking at opportunities. I'm pretty happy with what I've got, but if the right opportunity comes along I will definitely consider it, and that's what happened in Phoenix."

PERSONAL

First job: Dishwasher/busboy, age 15.
Formative influences/events: My first job.
Key accomplishments: My family.
Biggest mistake: Hiring family members.
Decision I wish I could do over: Hiring family.
Work week: 5 to 6 days.
How do you spend a typical day? Get into the office early and catch up on emails and then head out to the stores in uniform to work alongside our great team.
Favorite fun activities: Golf, fishing.
Exercise/workout: Walk a few miles a day.
Favorite tech toys: iPhone, iPad, and all Mac products.
What are you reading? *The Seed.*
Do you have a favorite quote? Treat people fairly!
Best advice you ever got: Shake people's hands and look them in the eye.
What gets you out of bed in the morning? My kids, and coming to a great place to work.
What's your passion in business? Growing our brand and giving all staff members an opportunity to do better in their lives.
How do you balance life and work? It is hard at times because I love family time, but I also enjoy working with our staff.
Last vacation: Hawaii this summer.
Person I'd most like to have lunch with: My grandfather.

It's not just about making money for Loflin, who describes himself as a "boring person." He says, "I do like to compete and I love battling to be the highest-grossing store in the chain, but I also want to provide a great product and great service. I like to say at the end of the day that I don't put dollars in the bank, I put transactions in the bank."

Loflin's 35 stores provide jobs for more than 680 employees and serve thousands of customers each week. He's in his stores regularly, in his uniform, observing and encouraging his crews. "It's not a power trip. I like being there and being a part of a restaurant operating," he says. "Again, it's not about the money, but about creating opportunities and providing great food and service."

Today he's enjoying a well-balanced life, spending more time with his wife and attending his kids' sporting events. It's a good place to be.

As for his focus on his business, he's still doing well. One of his stores topped $2 million in sales last year and another is the top-grossing store in the Wingstop system. Says Loflin, "My goal is to finish each day at each store by being better than we were yesterday." MUF

NAME: Charles M. Loflin

TITLE: President

COMPANY: San Antonio Wings

NO. OF UNITS: 35 Wingstops

AGE: 45

FAMILY: Wife and 2 children

YEARS IN FRANCHISING: 16

YEARS IN CURRENT POSITION: 16

MANAGEMENT

Business philosophy: Treat people more than fair, be honest with them, and have fun!

Management method or style: I am an aggressive person with lots of passion and sometimes it frustrates or confuses people.

Greatest challenge: The younger generation of employees.

How do others describe you? Fair and honest with a lot of passion.

One thing I'm looking to do better: I am always looking for a better way to run our stores that will benefit our guests and employees.

How close are you to operations? Extremely close. I have to go into my stores frequently or I feel out of touch. I am usually in uniform, so I just fit in and work with my teams.

What are the two most important things you rely on from your franchisor? Honesty and integrity.

What you need from vendors: A great relationship built on trust and understanding. We need each other and we treat them like partners.

Have you changed your marketing strategy in response to the economy? How? I am a believer in marketing. Depending on the economy, we may decrease or increase budgets, but we are constantly advertising.

How is social media affecting your business? Social media amplifies everything quickly. When we do something great, or when we do something not so great, it tends to be known quickly. Social media helps keep us on top of everything.

How do you hire and fire? I have a team that does this now, but I try and meet all new managers before they start. We are patient with management and try not to fire, but at times it must happen.

How do you train and retain? We're constantly training in the stores. We have a training manager in San Antonio and a two-month training process; 99 percent of it is in-store. As far as retaining, I have someone who works for me who does hiring and recruiting for managers and is always looking at ways to keep people. We have incentives, bonuses, and different things, it's not just financial. We've taken staff to play paintball. Once a year all employees get packages so they can bring up to four family members to Six Flags Fiesta Texas—the company pays $25 and the employee pays $7—and they love it.

How do you deal with problem employees? We tell them they are messing up and give them a second chance if we can. If they break a big rule we must move on so we do not jeopardize the other 700 employees we have working with us.

Fastest way into my doghouse: Being disrespectful to a guest or an employee and not staying true to our food.

BOTTOM LINE

2013 goals: We will open up 5 more stores this year. They are in various stages of construction.

Growth meter: How do you measure your growth? We look at getting better with service, quality food, and clean restaurants.

Vision meter: Where do you want to be in 5 years? 10 years? Doing the same thing and opening a concept that I have had in my head for a few years.

How is the economy affecting you, your employees, your customers? Customers are more demanding, so we have had to make sure our service is even stronger.

Are you experiencing economic growth or recovery in your market? We're experiencing growth throughout our markets.

What did you change or do differently in this economy that you plan to continue doing? We increased focus on the operations and the day-to-day.

How do you forecast for your business in this economy? We do not forecast.

Is capital getting easier to access? Why/why not? I have a great lender that sees the future like I do and is willing to expand rapidly with me.

Where do you find capital for expansion? I have one lender.

What are you doing to take care of your employees? We do things like on-shift meals, vacation, discounts, a summer get-together, and big theme parks.

How do you reward/recognize top-performing employees? Various ways: recognition, bonuses, and promotions.

What kind of exit strategy do you have in place? Do not have one. Having too much fun to think about that at this time.

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BY KERRY PIPES

Keeping It Simple—Big Time!

Charles Smithgall sets ambitious goals for his Aaron's empire

Keeping the business model simple has paid off handsomely for Charles Smithgall over the past 18 years he has been an Aaron's franchisee. "This is my fifth career, but my first in franchising," says the 71-year-old. "It's a fantastic business model because it allows me to focus on operations and execute. Everything else has already been worked out."

And working out it is for Smithgall. When we last spoke with him (MUF 2008, Q4), his SEI/Aaron's company had 61 locations in 7 states. Today, he has 105 locations in 10 states. And though he's preparing to hand over the reins to his son, Chas, in January 2015, Smithgall is not slowing down—in fact, he's stepping on the accelerator.

"We're right in the middle of a 10-year goal to grow to 200 stores, $250 million in net revenue annually, $20 million in net profit annually, and to create 25 millionaires within our system," he says. Bold goals to be sure, but Smithgall is just the kind of person who can make it happen.

NAME: Charles A. Smithgall, III
TITLE: Chairman & CEO
COMPANY: SEI/Aaron's, Inc.
NO. OF UNITS: 105 Aaron's Sales and Lease Ownership
AGE: 71
FAMILY: Wife Griff, son Chas (32), daughters Meghan (29) and Jessica (26)
YEARS IN FRANCHISING: 18
YEARS IN CURRENT POSITION: 18

"Our business is all about people," he says. "We need great people, especially our store general managers. We search hard for the best and test them, and when we find them we reward them and treat them right so they stay with us for a long time."

His goals may sound big but, he says, "If I didn't have goals I'd probably still be operating five stores." Growth obstacles for Smithgall's company have little to do with capital or acquiring territory. Rather, it's hiring and retaining great people that present the biggest challenge. "I'd guess about 90 percent of the general managers throughout franchising would not be able to successfully operate an Aaron's store," he says. "Our managers not only have to make the sale, they have to collect the dollars."

That's no easy task he says. "Our customers are always in a financial crisis." Aaron's is there to help them, which is one of the beauties of the brand's business model.

PERSONAL

First job: Holder Construction Company.
Formative influences/events: Great mentors: Dad, Georgia Tech Football Coach Bobby Dodd, Georgia Tech Athletic Director Homer Rice, Bob Holder, Ted Turner, and Charlie Loudermilk.
Key accomplishments: I've been lucky enough to be part of developing a great little company.
Biggest mistake: Paid too much for real estate and stuck too long with under-performing general managers.
Smartest mistake: Being in the right place at the right time.
Decision I wish I could do over: Begin purchasing our real estate sooner.
Work week: I usually fly out of Atlanta an average of 3 days per week and visit 20 stores per trip.
How do you spend a typical day? I'm on the road about 300 days per year visiting stores, calling GMs to cheer them on, and calling new associates to welcome them to SEI/Aaron's, Inc.
Favorite fun activities: Traveling, fishing, hunting, and golf.
Exercise/workout: Two times a day for one hour with trainer.
Favorite tech toys: None. I still have a flip phone.
What are you reading? *Rumsfeld's Rules, Total Recall,* and *The Heart of Mentoring.*
Do you have a favorite quote? It's your attitude rather than your aptitude that will determine your altitude.
Best advice you ever got: Don't ever, ever, ever give up and don't ever, ever, ever run out of cash.
What gets you out of bed in the morning? The fear of going broke.
What's your passion in business? I love our SEI/Aaron's associates. I love the people at Aaron's, Inc., our franchisor, but most of all, I love our customers and making their dreams come true.
How do you balance life and work? I work hard and play hard. My favorite time is being with my family.
Last vacation: I take 25 vacations a year.
Person I'd most like to have lunch with: There are three: Ronald Reagan, Theodore Roosevelt, and Abe Lincoln.

Smithgall, who calls himself the company's "cheerleader," is still active and on the road regularly. When we spoke, he had just finished a three-and-a-half day trip that saw him travel more than 1,500 miles, visiting 32 of his stores across 5 states. He leaves his home base in Atlanta to visit his stores throughout New England every week.

SEI/Aaron's has grown over the past five years through a combination of acquiring existing franchisee stores, company-operated locations, building new stores, and converting independent stores into the Aaron's brand. "I'll do whatever deal makes sense," he says.

Asked if he had ever considered additional brands, Smithgall quips, "I already know this business model, why would I go and have to learn another?" Seriously, he says, Aaron's is a great company with plenty of expansion opportunities, and he's hoping to get in on the brand's HomeSmart concept. So far those stores are all company-owned, but if Aaron's offers HomeSmart franchises, Smithgall plans to be at the front of the line.

It's been a great ride for this Southern gentleman, who recalls his 90-year-old father asking him what he was doing 18 years ago when he was first kicking the tires of the Aaron's brand. "He said to me, 'Son, if you're gonna hitch your wagon to a star, make sure it's a rising star.'" It was, and nearly two decades later his own star is still rising. MUF

MANAGEMENT

Business philosophy: "Surround yourself with people smarter and more talented than you are." In my case, they are not hard to find.
Management method or style: Let people do their job and cheer them on when they do.
Greatest challenge: Finding great talented associates.
How do others describe you? Upbeat with the attention span of a gnat and high-energy.
One thing I'm looking to do better: Move faster… we're in a hurry. I'm liable to die before we get this done.
How I give my team room to innovate and experiment: Our store teams have a great deal of flexibility on how they operate. All I want is for them to make all the money and win all of the awards.
How close are you to operations? Fortunately, we have a great president and COO, Dave Edwards, who is totally immersed in our operational performance. I visit all 105 of our stores a minimum of four times a year, but my role is different than Dave's. I visit t to: a) meet our new associates; b) congratulate the general manager and staff on the success to date; c) note any real estate deficiencies, and d) greet every customer.
What are the most important things you rely on from your franchisor? Timely delivery of merchandise, effective brand advertising, and field support.
What I need from vendors: Almost all of our vendors deliver to Aaron's, Inc. The franchisees receive merchandise from 18 store fulfillment centers placed strategically around the country. We can order on Monday and receive our order on Wednesday. It's a great system.
Have you changed your marketing strategy in response to the economy? No.
How is social media affecting your business? We are adapting to young people who want to shop online.
How do you hire and fire? We hire slowly and terminate quickly, but usually not quickly enough.
How do you train and retain? We have Aaron's University, which is a great online training resource.
How do you deal with problem employees? Counsel, counsel, terminate.
Fastest way into my doghouse: Don't do what you say you are going to do.

BOTTOM LINE

Annual revenue: $140 million.
2013 goals: a) $750,000 in GAP; b) 7,500 customers; c) 94.9% collected; d) 9.5% profit in mature stores; e) 110 stores.
Growth meter: How do you measure your growth? Number of stores and annual revenue.
Vision meter: Where do you want to be in 5 years? 10 years? 5 years: be a $300 million company. 10 years: be a $700 million company.
How is the economy affecting you, your employees, your customers? We haven't felt the economic changes in our company. We are as good as our people. The economy does not seem to affect our business. Our success is based solely on our operational performance.
Are you experiencing economic growth or recovery in your market? We operate in 10 states, so no effect.
What did you change or do differently in this economy that you plan to continue doing? Nothing.
Is capital getting easier to access? Why/why not? It's easier because we have an 18-year track record of outstanding performance.
Where do you find capital for expansion? We have a revolver with three bank participants and we have funding available for acquisitions.
Have you used private equity, local banks, national banks, other institutions? Why/why not? National banks. It's simple, easy, no loss of control, and great rate.
What are you doing to take care of your employees? We have a great 401(k) that matches 50 percent up to 6 percent. All associates are paid commission on performance, and we have what I think is the best compensation plan in the retail industry.
How are you handling rising employee costs (payroll, healthcare, etc.)? We've been fortunate in controlling our healthcare costs because we have a great agent.
How do you reward/recognize top-performing employees? We have an annual, all-expenses-paid excellence trip to someplace warm with our top-performing associates and spouses. Our general managers are compensated 16 percent of the pretax profit plus 2.5 percent of the net revenue of their store each month.
What kind of exit strategy do you have in place? My son, Chas, who's 32 years old, is my successor. He will take over as CEO on January 1, 2015.


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DOMINATORS

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

MSA	FRANCHISED UNITS
LOS ANGELES, CA	15,921
CHICAGO, IL	9,448
ATLANTA, GA	6,896
WASHINGTON, DC-MD-VA-WV	6,487
HOUSTON, TX	5,688
BOSTON, MA-NH	5,655
PHILADELPHIA, PA-NJ	5,184
DALLAS, TX	5,071
NEW YORK, NY	4,981
MINNEAPOLIS-SAINT PAUL, MN-WI	4,847
PHOENIX-MESA, AZ	4,793
DETROIT, MI	4,699
TAMPA-ST. PETERSBURG-CLEARWATER, FL	3,538
SEATTLE-BELLEVUE-EVERETT, WA	3,435
SAN DIEGO, CA	3,434
ST. LOUIS, MO-IL	3,341
DENVER, CO	3,290
WASHINGTON-BALTIMORE, DC-MD-VA-WV	3,195
SAN FRANCISCO-OAKLAND-SAN JOSE, CA	3,186
CHARLOTTE-GASTONIA-ROCK HILL, NC-SC	2,941
ORLANDO, FL	2,763
PORTLAND-SALEM, OR-WA	2,698
KANSAS CITY, MO-KS	2,628
LAS VEGAS, NV-AZ	2,614
OAKLAND, CA	2,608
NASSAU-SUFFOLK, NY	2,605
INDIANAPOLIS, IN	2,577
PITTSBURGH, PA	2,513
SACRAMENTO, CA	2,479
DALLAS-FORT WORTH, TX	2,477
CLEVELAND-AKRON, OH	2,389
NORFOLK-VIRGINIA BEACH-NEWPORT NEWS, VA-NC	2,340
COLUMBUS, OH	2,314
SAN ANTONIO, TX	2,313
RALEIGH-DURHAM-CHAPEL HILL, NC	2,312
NASHVILLE, TN	2,232
AUSTIN-SAN MARCOS, TX	2,205
CINCINNATI, OH-KY-IN	2,153
MILWAUKEE-RACINE, WI	2,113
NEWARK, NJ	2,024
FORT LAUDERDALE, FL	2,020
MIAMI, FL	1,952
HARTFORD, CT	1,803
JACKSONVILLE, FL	1,798
RICHMOND-PETERSBURG, VA	1,784
SALT LAKE CITY-OGDEN, UT	1,768
GREENSBORO-WINSTON-SALEM-HIGH POINT, NC	1,610
OKLAHOMA CITY, OK	1,610
WEST PALM BEACH-BOCA RATON, FL	1,557
GREENVILLE-SPARTANBURG-ANDERSON, SC	1,542
BERGEN-PASSAIC, NJ	1,493

LARGEST FRANCHISEES BY STATE

STATE/TERRITORY	LARGEST FRANCHISEE	UNITS
ALABAMA	NPC INTERNATIONAL INC	102
ALASKA	SUBWAY DEVELOPMENT OF ALASKA	24
ARIZONA	STINE ENTERPRISES INC; UNION DISTRIBUTING CO (tie)	70
ARKANSAS	K-MAC ENTERPRISES INC	93
CALIFORNIA	SOUTHERN CALIFORNIA PIZZA	223
COLORADO	HARMAN MANAGEMENT CORP	67
CONNECTICUT	NORTHEAST FOODS LLC	33
DELAWARE	WENDOVER INC	14
DISTRICT OF COLUMBIA	MARY LYNNE CARRAWAY	12
FLORIDA	HESS CORP	211
GEORGIA	NPC INTERNATIONAL INC	86
HAWAII	BLUE PACIFIC LLC	31
IDAHO	JACKSON FOOD STORES INC	60
ILLINOIS	HEARTLAND FOOD CORP	178
INDIANA	BR ASSOCIATES INC / SIDAL INC	116
IOWA	NPC INTERNATIONAL INC	64
KANSAS	ROTTINGHAUS LLC	170
KENTUCKY	FOURTEEN FOODS LLC; JAMES MICHAEL JONES (tie)	53
LOUISIANA	STRATEGIC RESTAURANTS ACQUISITION COMPANY LLC	129
MAINE	CAPITAL PIZZA HUTS	26
MARYLAND	DAVCO RESTAURANTS INC	108
MASSACHUSETTS	HK ENTERPRISES; CONSTANTINE SCRIVANOS (tie)	58
MICHIGAN	QUALITY DINING INC	83
MINNESOTA	BORDER FOODS INC	150
MISSISSIPPI	NPC INTERNATIONAL INC; CARLISLE CORP (tie)	72
MISSOURI	ROTTINGHAUS LLC	85
MONTANA	KENT COLVIN	24
NEBRASKA	HEARTLAND FOOD CORP	40
NEVADA	CRAWFORD OIL INC	82
NEW HAMPSHIRE	CONSTANTINE SCRIVANOS	41
NEW JERSEY	BRIAD RESTAURANT GROUP LLC	56
NEW MEXICO	B & B CONSULTANTS INC	68
NEW YORK	CARROLS RESTAURANT GROUP	116
NORTH CAROLINA	STEPHEN WILLIAMS	176
NORTH DAKOTA	FARMERS UNION OIL CO	19
OHIO	CARROLS RESTAURANT GROUP	85
OKLAHOMA	WING FINANCIAL SERVICES LLC	112
OREGON	PETROCARD SYSTEMS INC	36

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The financial performance representations set forth above are for the one year (52 weeks) period commencing on January 2, 2012 and ending on December 30, 2012 and are for the 9 affiliate-owned restaurants open the entire 52 weeks. Of the 9 restaurants, 3 exceeded the average Gross Sales and 5 exceeded the average Net Income as defined in our Franchise Disclosure Document. Please refer to Item 19 of our 2013 Franchise Disclosure Document issued on April 15, 2013, for additional information. This information is not intended as an offer to sell, or the solicitation of an offer to buy, a franchise. It is for information purposes only. Offering is made only by prospectus.


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LARGEST FRANCHISEES BY STATE, *continued*

STATE/TERRITORY	LARGEST FRANCHISEE	UNITS
PENNSYLVANIA	JERRY BUSS	54
PUERTO RICO	LYLE SWANSON	37
RHODE ISLAND	JAN CO INC	30
SOUTH CAROLINA	APPLE GOLD INC	40
SOUTH DAKOTA	NPC INTERNATIONAL INC; WALSH (tie)	22
TENNESSEE	TRI-STAR ENERGY LLC	122
TEXAS	MUY BRANDS LLC	218
UTAH	SIZZLING PLATTER INC	57
VERMONT	PETER NAPOLI	14
VIRGINIA	BODDIE-NOELL ENTERPRISES INC	174
WASHINGTON	HEARTLAND AUTOMOTIVE SERVICES INC	100
WEST VIRGINIA	LITTLE GENERAL STORE INC	27
WISCONSIN	WISCONSIN HOSPITALITY GROUP LLC	118
WYOMING	KENT COLVIN	17

Market Dominators

The trend of multi-unit, multi-brand franchisee organizations becoming larger and more numerous each year is here to stay—and accelerating as operators who rode out the recession are expanding their portfolios by swallowing smaller fish, acquiring under-performing units, building new stores, and expanding into new brands and territories. The shakeout (and subsequent consolidation) of weaker operators, combined with improved operations by the stronger ones, is creating some extremely large franchisee organizations, as the rankings show.

These multi-unit and multi-brand dominators are sophisticated, savvy, and experienced at managing organizations with hundreds of units, often spread across several states. They also understand that success is all about unit economics, one customer and one unit at a time.

They create jobs by the hundreds and thousands by hiring employees and doing business with local suppliers. And the best give back to their communities on a large scale, encouraging their employees to participate in supporting local organizations and charities.

But no franchise dominator gets to the top without years of hard work, sacrifice, perseverance, and an unwavering desire to be the best at what they do. Congratulations to this year's Dominators! MUF

LARGEST FRANCHISEES BY REGION

REGION	UNITS
EAST (DC, DE, MD, NJ, NY, PA, WV)	
ADF COMPANIES	158
CARROLS RESTAURANT GROUP	152
TARGET CORP	135
HMSHOST	121
DAVCO RESTAURANTS INC	111
MIDWEST (IL, IN, MI, MN, OH, WI)	
HEARTLAND FOOD CORP	302
TARGET CORP	206
FLYNN RESTAURANT GROUP LLC	199
CARROLS GROUP	181
BORDER FOODS INC	154
MOUNTAIN WEST (CO, ID, MT, UT, WY)	
HARMAN MANAGEMENT CORP	92
NPC INTERNATIONAL INC	89
SIZZLING PLATTER INC	84
PALO ALTO INC	66
JACKSON FOOD STORES INC	60

REGION	UNITS
NEW ENGLAND (CT, ME, MA, NH, RI, VT)	
CONSTANTINE SCRIVANOS	111
NORTHEAST FOODS LLC	101
HK ENTERPRISES	74
CARLOS ANDRADE	68
FLYNN RESTAURANT GROUP LLC	65
PLAINS (IA, KS, MO, NE, ND, OK, SD)	
ROTTINGHAUS LLC	319
NPC INTERNATIONAL INC	239
UNITED STATES BEEF CORP	213
FUGATE ENTERPRISES	135
WING FINANCIAL SERVICES LLC	113
SOUTH (AL, AR, FL, GA, KY, IA, MS, NC, SC, TN, TX, VA)	
NPC INTERNATIONAL INC	788
TARGET CORP	356
BODDIE-NOELL ENTERPRISES INC	299
ARAMARK	288
CARROLS RESTAURANT GROUP	233

REGION	UNITS
SOUTHWEST (AZ, NV, NM)	
B & B CONSULTANTS INC	118
CRAWFORD OIL INC	82
STINE ENTERPRISES INC	70
UNION DISTRIBUTING CO OF TUCSON	70
LAS CAL CORP	65
WEST (AK, CA, HI, OR, WA)	
TARGET CORP	250
SOUTHERN CALIFORNIA PIZZA	223
HARMAN MANAGEMENT CORP	211
HEARTLAND AUTOMOTIVE SERVICES INC	158
JAMES GRESSETT	147

Source: FRANdata

BY EDDY GOLDBERG

Counter Culture

HOW DO YOU TRANSFER YOUR CULTURE TO THE FRONT LINE?

Gathering customer feedback is a lot easier these days than it used to be. From register receipts and customer surveys to online sites such as Yelp, Angie's List, and more, franchisees can learn a lot from what their customers have to say about them. However, training front-line employees to take this seriously is an ongoing challenge. And with many of today's customers expecting more—even from fast-food brands—training front-line employees to treat customers the way the franchisee or manager would like is more important than ever… and, when done right, a competitive advantage, as you'll see in the four stories below.

For Judy and Charlie Divita that challenge plays out every day in their six Firehouse Subs restaurants. When we profiled these MVP Award winners (MUF, 3Q12), one of their goals was to "systematically strengthen our customer service culture, training, and operations."

"You've got to have those things tied together—the making of a sub and being timely cannot be separated from the people part of it," says Charlie. "The relationship between customers and employees is critical."

For example, he says, if you deliver an average sandwich to a customer and the customer experience is outstanding, you'll probably be okay. The goal, of course, is to be outstanding on both. That requires commitment from the front-line employees. When customers come into a store and employees are authentically valuing those things, he says, "You've got a home run."

Easier said than done. "To tell the truth there's not much you can do to train that," he says. And while you can model it, that doesn't guarantee the staff will pick up on it, says Charlie. "When we hire employees, the focus is on getting them to make a sandwich," he says. "Teaching that is very easy. The problem in our business is attention to detail, paying attention to the customer. We're finding increasingly that that's what we have to pay attention to."

One way they're doing that is by actively soliciting customer feedback, using an online survey from Firehouse Subs. "We can't get enough of these," he says. To increase responses, they offer incentives to both customers *and* employees.

Each register receipt asks customers to respond, positively or negatively, to earn a free drink and be entered into a sweepstakes. Managers are given incentives to get as many responses as possible, good or bad. And cashiers are trained to ask each customer to respond. And they give away $100 at every monthly staff meeting, partially based on the volume of responses. "It's not a bonus based on how high the ratings are. We just want to get the feedback," says Judy.

They also review the results in monthly meetings with each of their six store managers and at biweekly meetings with shift leaders at each store, who feed that back to employees. And they post the results in all their stores, benchmarking each store against the others and against regional and national numbers.

The survey asks questions about the food, cleanliness, and the usual restaurant standards. But it also asks customers about the crew, such as their sense of urgency, their friendliness and hospitality, the overall atmosphere of the restaurant, and "Did a crew member ask you to take the survey?" Another part of the survey asks customers how much they agree with statements such as "Firehouse Subs is a place where the customer comes first."

"We're using the data from the surveys as a guide," says Judy. Their goals include raising their customer satisfaction numbers and getting more customers to recommend their stores. "The idea is to make it a focus every month so it continues to be top of mind," she says. That applies to both shift leaders and front-line staff.

"You can't take any action constructively unless you have some data. We can

"We're where the rubber meets the road. We model, build incentives, train, and now we have the customers involved." —Charlie and Judy Divita

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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“If we hire a little tougher, we can manage easier.” —Glenn Mueller

train theoretically, preach all day long,” says Charlie. “We try to use real data as a case study to improve. We can never stop improving, never reach the level of perfection possible.”

Recently, they started going back through the responses and are conducting refreshers on cashier training, most notably the interactions with the customers: how important it is to speak to customers, make eye contact, and how they handle the sales process, and they’re using the responses for further training.

“That’s one thing this feedback gives us: live, real, feedback from customers, and the cashiers are the primary people who interact with them,” says Charlie, adding that for many cashiers the feedback is eye-opening.

One example involved a customer having a very different experience in two of their stores. The problem was that the customer liked a sandwich that wasn’t programmed into their POS system.

“One of our longer-time cashiers didn’t understand the process of how to make that happen on our POS,” says Judy. “It was a good opportunity to realize we had a skill/training issue. One store knew and did it well and made a positive impact, the other store didn’t and made a negative impact,” she says. “It helps us calibrate if our folks are up to the task attitudinally and skill-wise.”

“Just the fact that they’re asking the customers to give them feedback sensitizes them to doing the right behavior and keeps it top of mind. This is really valuable, even if we never get a report,” says Charlie. “I think that really flows down. We’re where the rubber meets the road. We model, build incentives, train, and now we have the customers involved.”

Despite the difficulties of training staff to solicit customer feedback in a high-turnover environment, they say it’s well worth the effort—for both the company and their employees. “It may be an entry-level job or second job, but they can really take pride in what they’re doing,” says Charlie. Entry-level, jobs, he says, “are not the best-paying, but you’re trying to make something called culture.”

Hire a customer service pro

Glenn Mueller, whose RPM Pizza operates 135 Domino’s Pizza restaurants, says a good operation depends on four things: a great product, speedy delivery, clean image, and excellent customer service. Mueller is CEO and majority owner of RPM Pizza, which is celebrating its 32nd year as a franchise.

Thanks to improvements in the brand’s food under the leadership of Domino’s CEO Patrick Doyle, the quality of the pizza has improved dramatically. “We’ve always been fast,” says Mueller. “Patrick and Domino’s reengineered our entire product line and made sure it was number-one versus our major competitors. Now they are upgrading every store’s image with a whole new logo and a new store design that includes more inviting lobbies with views to an open kitchen. The last area we really need to improve on is our hospitality and friendliness. One area we’re weakest on according to surveys is customer service.”

He calls the changes by the franchisor a “perfect storm”—in a positive way. “Domino’s has upgraded product, speed of service, and image standards, and given us new technologies to connect with customers and new ways for them to order.” The only missing ingredient was friendly customer service.

Says Mueller, profiled earlier this year in this magazine (MUF, 1Q2013), “In our business, there is high turnover. Every company has a culture. The trick is how do you get a culture of excellence not only established, but also how do you sustain it and not go backward, despite the high turnover?”

To create a culture of customer service excellence, Mueller has been working with an outside consultant, John DiJulius, founder of The DiJulius Group. “It’s been a breath of fresh air in the last couple of years. It’s really transformed our company,” says Mueller. “It’s one of the best things we’ve ever done.”

To begin, DiJulius addressed all of the management team (store operating partners) and RPM’s entire 3,000-person workforce on video. “He gave a great talk. He took some of our customer experiences and metrics and gave us a new view of our business—and showed us how we really need to establish a ‘customer service vision.’”

That vision? “Creating smiles by making lives easier.” Those six words, says Mueller, are easy to remember for both managers and front-line associates. And, he adds, it’s built on three pillars: 1) operational excellence, 2) customer delight, and 3) delivering the “Wow” by going above and beyond, making peoples’ day.

“He gave us a different set of glasses, a new way to look at our business,” says Mueller. “We always thought we were in the customer’s shoes, but we were clueless. Plus customers are demanding more these days.”

One of the things Mueller likes best—besides the improvements in customer service—is the ROI. “He got us to change our culture without costing us a whole lot of money,” says Mueller, who likes the results so much he’s extended the contract with DiJulius, whom he met at a Multi-Unit Franchising Conference.

To create that cultural change, they created a rollout team that goes into each store to help train every team member on what they should do—and never do—during every transaction in the store, on the phone, or at the door. One example: Don’t ever say “No problem”; instead say “My pleasure.” Says Mueller, “How much money did that

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CREATING A
Performance-Driven Culture

When we profiled Glen Helton in 2009 (MUF, 4Q09), he was president and COO of Strategic Restaurants Acquisition Corp. (SRAC), which operated 271 Burger Kings and 17 T.G.I. Friday's across 9 states. SRAC had acquired 226 Burger Kings out of bankruptcy in 2004, and bought 16 TGIFs the same way in 2008. In November 2010, he left SRAC to join Burger King Corp. and 3G Capital as part of the leadership team in an effort to help turn the company around by creating a performance-driven culture. On Jan. 1st of this year, he left Burger King as senior vice president of global operations to pursue his next challenge. That's just our way of saying he knows a little something about turnarounds and creating a culture based on performance.

"Every turnaround is the same: making sure there's clarity. What is the vision, what are the goals, why are we doing what we do?" he says. "Once you have that clarity, it's making sure that everybody contributes to those goals—and how they *specifically* individually contribute. What happens too many times is people aren't sure."

At Burger King, "everybody" meant *everybody*, from the CEO, Bernardo Hees, to the front-line crew making and serving the brand's trademark Whopper sandwich. Top management not only set ambitious goals at all levels, those goals were posted and shared throughout the company. For example, the CEO's goal might be to increase sales or EBITDA by a certain percentage or to grow the number of restaurants by a certain number. Those goals were agreed on by the company's board and passed on to the leadership team.

"That cascades down through the organization through MBOs," says Helton, and it's measured by KPIs: what each person had to do each quarter to achieve those goals. From there, it continued throughout each department in the organization, such as marketing, development, operations, etc., with all contributing in different ways.

"The key is that everybody's goals are published and shared," he says. "This visible approach to managing performance assured alignment, provided clarity, and set expectations holding everyone accountable." The effort was focused not only on individual performance, but also provided an opportunity to help others improve their performance. "You could walk around the building and see who was on track, who wasn't, and what was slowing down the company," he says—and work with them to improve.

"Every turnaround is the same: making sure there's clarity. What is the vision, what are the goals, why are we doing what we do?"

The final piece in achieving a performance-driven culture from top to bottom, he says, is to reward everyone who performs. "In a meritocratic culture, only those who perform are rewarded," he says.

"At Burger King, our four values were—empowerment, accountability, bold, and fun—but we realized there was no value around performance. We named it 'meritocracy,' which was soon understood by everyone with this new, visible approach to managing performance." This strategy included front-line employees as well—another thing Helton knows something about. "I started as a teenager at Burger King and worked my way up through the ranks in the food business to a very senior level," he says.

For front-line employees, he says, "It cascades the same way in the form of goals. They get measured the same way—and rewarded too." The difference at the restaurant level, he says, is "You have to galvanize the team around the critical individual area they have to focus on." And, he adds, make it fun.

At the time, food quality was a challenge for Burger King, so the company chose to focus on its signature item and initiated "The Whopper Challenge." The initiative also included the corporate staff to see who could make the best Whopper in the office—HR, construction, accounting, etc. If you were in field construction, for example, you had to learn how to make a Whopper well enough that it could be served to a guest. "Before that, we had some people from the restaurant support center who'd never made a Whopper," says Helton.

As for his part, "I would go into a restaurant and challenge the local team's best Whopper maker. The contest was to build the gold standard in the shortest time." Restaurant employees competed to make the best Whopper, with the winner competing with Helton, or with someone else from corporate.

"It was about galvanizing all our company locations around improving quality. The customer attributes on quality of the sandwich went up significantly as result of a little fun in the restaurants," he says. "That focus, galvanizing everybody in the company on a single product, made us take a hard look at all our products. We measured it, had fun, and the results showed up in improved customer satisfaction."

We want to Wow our employees, and 'Okay' is not a Wow. Every time I speak to our people I review that with them." —Ed Doherty

cost?" Small changes like this add up to an improved customer experience.

To keep those changes moving forward, every store has crew meetings where customer feedback is monitored and evaluated. Internally, says Mueller, "We're starting to promote the positive stories, and we have a lot more positive than negative ones."

One example: a customer called in to cancel her order because her car had a flat tire. Not only did the driver deliver the pizza to her, he changed the woman's tire. "He did it in less time than AAA would have," says Mueller. "And we would never have known if the woman hadn't written in to thank him."

Another: an elderly customer in Mississippi, a regular, didn't answer the door when the driver arrived. The driver called 911. It turned out that the customer had collapsed. Mueller says the driver saved that customer's life. "We have so many heroes who go above and beyond when they have the opportunity, and the customer gets wowed," he says. "It's fun and energizing."

Today Mueller is looking to improve his hiring process. "John helped us establish our standards of what to do, and what never to do. Now we're hiring our team members based on their service aptitude," he says.

"The whole idea of culture is hard. It may not cost a whole lot of money but it's difficult. How we select and train our operating partners starts in the hiring process," says Mueller. "It's impossible to maintain this friendly culture if we don't hire for it. We don't do a bad job in this area, but we don't do a great job in selecting people with a high service aptitude. If we hire a little tougher, we can manage easier."

For Mueller, despite all the improvements in customer service, there's still a long way to go. "We haven't fully rolled this out yet, it's a work in progress," he says. "I think it will take us another 3 years to be like a Starbucks or Chick-fil-A. It's a never-ending journey."

Nevertheless, he says, "We're light years from where we used to be. All of our customer metrics have improved and we're only halfway. In the pursuit of excellence you're never done."

The power of "Wow"

Ed Doherty recently acquired 38 Applebee's restaurants in Florida, bringing his total to 100. "With the culture at Doherty Enterprises, I think we can turn them around and be successful," he says. "Our vision is to be the best foodservice company in the communities we operate in."

For Doherty, being the best means to be "so highly respected that people who want to work in the industry—nights, weekends, long hours—will want to work for us rather than our competition," he says. The way he measures that is by low turnover for both managers and front-line employees in his organization. "We want to Wow our employees, and 'Okay' is not a Wow. Every time I speak to our people I review that with them."

Doherty, who last year received an MVP Award from this magazine (MUF, 3Q2012), is based in the New York City tri-state area, and has several additional brands (35 Panera Breads, 2 Chevys Fresh Mex, and some brands of his own, 144 in all). In total, he provides about 9,000 jobs. With multiple brands, each training program is different, he says. "I have to have certified trainers approved by our franchisors; we're so big we do it ourselves. Those are really your leaders among the crew—not the managers or supervisors, but the cooks, the hosts, and the bartenders."

At Doherty Enterprises, which he founded in 1985, culture can be summed up in one word: Wow! In fact, Doherty says he's one of the first to use the word. "Back in 1993, when I opened my first Applebee's, I used the word Wow. No one used it back then. I've been doing it since then and pounding it in."

One of the ways he transmits his Wow culture throughout his organization is through training and repetition from top to bottom. "If you keep doing this over and over again it permeates the culture, from the cooks to the person washing the dishes."

Doherty meets with his managers numerous times during the year. "At manager outings for all managers and supervisors, I attend and speak about our culture of Wow." There's also an awards dinner for all managers and supervisors, with about 850 and their spouses attending.

Training is extensive. Following the initial brand training, managers spend 2 to 4 months training in a restaurant or café. That's followed by a week of Wow leadership training, which begins with a 90-minute review of the company's culture, vision, and mission. His goal is to connect, engage, and build relationships and accountability for achieving results. His senior team "hears it over and over throughout the year," he says.

There's also a big emphasis on recognizing good customer-facing behavior. "Every time we get a thank-you note we send that in a Wow newsletter and post it in the restaurants on a bulletin board," he says. "I get copied on it, then send a second email out to all of our restaurants and identify the restaurant and the management team that got it, adding a note like, 'Thank-you, you made my day!'"

With so much training and the emphasis on recognition, his culture is ingrained from top to bottom. "As I tell our managers, if you're fully staffed and have managers who are well-trained and tenured, and your team associates are well-trained, it's a very easy business."

Culture begins at home

Like most successful multi-unit franchisees, these operators also have a strong commitment to contributing to their communities.

Last year, says Doherty, 100 restaurants participated in 700 events, donating money and food to local charities. "We ask managers and crew people to go into the community at least twice a year. We provide the food and the money. We get PR on that, and lots of thank-you notes," he says. "Young people today like to be part of an organization that gives back."

That attitude applies internally as well. The company's Wow a Friend Foundation collects contributions from employees—matched by Doherty and his wife Judy—to help employees who are having a hard time. "Everybody at some time has a personal crisis," he says. Employees contribute—voluntarily—to the foundation, which is run by crew members and staff, not the executives. Anyone working for the company can apply for financial assistance, whether they've contributed or not.

Following Hurricane Sandy, the foundation helped 194 people with a total of $275,000. To date, he says, 432 people have been helped, receiving a total of more $600,000. The money is a gift, not a loan, and recipients are chosen by the committee. "People really appreciate it," says Doherty, adding that it not only helps people get through a bad patch, but "also builds loyalty and respect for the company."

When Helton was at Burger King, involving the entire company in the community—in a big way—was also a part of building a culture that cascaded to the front line. When he arrived, the company already was doing this, but he raised the stakes. "We'd raised money for groups before, at a minimum level, not at the level it could be."

He challenged every company restaurant to raise $1,000 for a scholarship through the Burger King McLamore Foundation—the previous amount raised had been only a few hundred dollars per location. He set the goal at $1 million (Burger King had 985 U.S. restaurants at the time). "We did it in a fun way, without any cost, and ended up raising the $1 million," he says. "We'd never raised above $300,000 before." The fun part? The team that raised the lowest amount had to get up on stage at the company's annual meeting and sing "Proud Mary," in front of their peers—in full costume.

Soon after, in 2010 when a disastrous earthquake struck Haiti, that spirit paid off once again through an effort to raise money for the Red Cross, which needed to purchase10 new relief trucks at $100,000 per truck. "We didn't even have to ask this time, and we did it in one month," says Helton.

At Firehouse Subs, community giving is part of the brand's DNA, with years of providing life-saving equipment to firefighters. Involving employees in the spirit of giving is something the Divitas work hard to achieve—and it pays off in other ways as well.

"Overall, what we want is to have our employees have a sense of pride in what they're doing, and also in the Firehouse brand and giving to the community," says Charlie. "You're making a sub and helping to save people's lives." MUF

BY KERRY PIPES & EDDY GOLDBERG

LOOKING AHEAD

TO 2014'S MULTI-UNIT CONFERENCE

Advisory Board meets to plan next year's multi-unit gathering

Last March, more than 1,200 attendees, 450 of them franchisees, flocked to Caesars Palace in Las Vegas for the 12th annual Multi-Unit Franchising Conference, and 2014's event looks to be even larger. In September, the Advisory Board for next spring's conference gathered in Scottsdale to plan the agenda and content for 2014.

Over two days, these experienced, successful multi-unit operators discussed issues they face operating a franchise business in today's challenging economic climate. They hashed out topics, keynote speakers, and panelists, along with their top concerns for the coming year, all focused on making next year's conference the best ever. This year the board met at the posh Fairmont Scottsdale Princess, where they rolled up their sleeves and got busy developing the agenda, revisiting session formats, and working out a host of conference nuts and bolts.

Franchise Update Media Group CEO Therese Thilgen kicked off the meeting by discussing the results of a pre-meeting survey of the board members. "There's a trend of multi-unit franchisees getting out of their comfort zone," she said, referring to continued expansion through the addition of new units and new brands. For example, one board member recently added a home care concept to his restaurant holdings; another has added Sears retail stores to his restaurant business.

Still, as Thilgen noted, the usual challenges remain: hiring and retaining quality employees, dealing with a growing swell of government regulations, and making sure basic operational and marketing issues are effective and generating results. These topics, and many more, are in store for the franchisees who attend the 2014 conference, which will be held at Caesars Palace in Las Vegas, April 23–25.

Aziz Hashim, a longtime multi-unit

franchisee with brands including Popeyes, Subway, and Checkers/Rally's, will serve as Conference Chair for next year's event. He has been working closely with Thilgen and her team at Franchise Update to review previous conference content and scheduling and make adjustments and improvements for 2014.

Local area marketing dominated the group's discussion early on. Board members discussed the importance of guerilla marketing, proper budgeting and spending, measuring results, and how to "own your neighborhood." These experienced operators understand that success in their markets takes a concerted local effort and tracking what's working and what isn't—and using data to fine-tune their efforts.

Franchisee-franchisor relationships and the importance of working closely with their franchisors was another hot topic. Board members acknowledged this can be a contentious area, but spoke positively about how open communication and keeping mutual interests in mind can make a significant improvement for both sides and help grow the brand as a whole.

This led into a lively discussion about franchise agreements and the changing balance of power in franchising. While there is room for negotiation in these contracts, it's critical to know what can and cannot be negotiated. Diplomacy can play a big part, too—as long as the franchisor is willing to listen. "We need to educate franchisors about franchise agreements, not attack them," said Hashim, who is also working with the IFA on this. He said there is a way to keep both sides happy and that, when done properly, ultimately helps sell more franchises and strengthens the entire system.

Communication and collaboration were recurring themes throughout the meeting and will appear in various forms in next year's conference sessions.

Whether it's real estate, leasing, government regulations, hiring, customer service, buying and selling units, outsourcing—and much more—franchisees attending next year's Multi-Unit Franchising Conference are sure to benefit from a stellar lineup of speakers, panelists, and content that will offer strategies, tools, and insights into growing a successful franchisee organization. MUF

THE 2014 MULTI-UNIT FRANCHISING CONFERENCE ADVISORY BOARD

The 2014 Multi-Unit Franchising Conference Advisory Board consists of multi-unit franchisees active in all areas of franchising, from hair to burgers and subs to auto repair to home health care. Several oversee more than 200 units in their diverse portfolios. Attendees this year included Steve Adams, Bob Chase, Greg Cutchall, Sean Falk, Rocco Fiorentino, Gary Grace, David and Maureen Grimaud, Bill Hall, Aziz Hashim (2014 Chair), Ellen Hui, Mike Kulp, Tony Lutfi, David Ostrowe, Gary Robins, Cheryl Robinson, Grant Simon, Charles Smithgall, Ricky Warman, and Anil Yadav.

Board members unable to attend this year were Rob Branca, John Hotchkiss, Ken Leese, John Metz, Glenn Mueller, Guillermo Perales, Lloyd Sugarman, Ted Torres, and Eric Werner.

BY DALLAS KERLEY, CHIEF DEVELOPMENT OFFICER

Successful Funding Strategies:

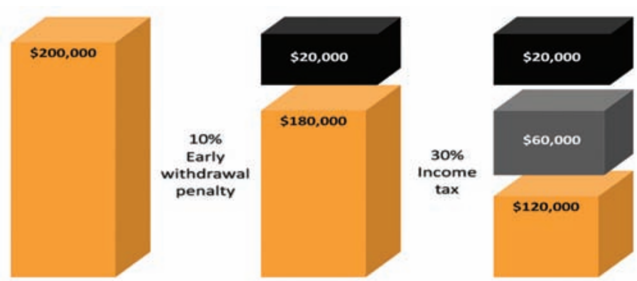
How to get the equity injection you need to obtain a SBA Loan.

Benetrends has been helping people achieve the American dream of business ownership for more than 30 years. With so many options for funding a new business, entrepreneurs come to us to help them navigate the many options and design the best funding program for their individual needs. One common concern we are often asked to address is "where can I get the money I need for an SBA Loan"? Several requirements need to be met in order to obtain an SBA loan. One of the most important is demonstrating that you have sufficient "Skin in the Game". Usually this means that in addition to having sufficient collateral, lending institutions want you to provide a 20% to 30% capital injection to qualify for a loan. Entrepreneurs often find they don't have sufficient savings to meet this equity injection requirement and therefore need to look at alternative sources for the funds. In light of this, two of the more popular ways to acquire these funds, has been using either 401(k)/IRA Rollover funding or a Securities Backed Loan.

401(k)/IRA Funding

In recent years, over 10% of franchisees have used 401(k)/IRA Rollover funding as part of their funding strategy.

It's easy to see why Retirement Plan Rollover funding has become so popular. Due to the significant tax advantages, many entrepreneurs have the majority of their savings locked away in retirement plans such as IRA's and 401(k)'s, which carry severe penalties and tax consequences for early withdrawal. For example, if you have $200k in an IRA or 401(k) and take an early withdrawal, you may be required to pay a 10% penalty and as much as 30% in ordinary income taxes, leaving you with only $120k of your original $200k. However, by employing a popular program known as a 401(k) ROBS (rollover for business start-up), those funds can be used to provide the required capital injection for your SBA loan, both tax deferred and penalty free. While this program when used in conjunction with an SBA loan has proven to be a successful combination for funding a new franchise, many entrepreneurs utilize the retirement plan rollover as the sole method of funding their new franchise, thereby avoiding the need for any type of loan.



Securities Backed Loan

Another popular strategy to acquire the needed capital for a loan, involves using a Securities Backed loan. This type of loan is similar in concept to a home equity loan, except the loan is backed by securities held in an investment portfolio, rather than the equity in your home. In many cases, this program makes more sense than selling your stock to raise the needed capital for your equity injection, because the cash needs are satisfied without disrupting investment strategies, asset allocations or creating unexpected tax consequences.

Securities backed loans have both favorable interest rates and easy terms. Your credit score is not a factor in qualifying for a loan, the interest rate is usually lower than a home equity or SBA loan, you typically receive an approval within 48 hours and the funds within ten business days. There are other advantages to consider as well: the investments in your portfolio remain in your name and don't need to be sold; therefore, you avoid paying capital gains on your low cost basis stock. You also can trade within your portfolio and you keep all the appreciation and dividends from your portfolio as it grows. Maximum loan amounts ordinarily are 70% loan to value, so for example if you have a $200K investment portfolio, you would qualify for a $140K loan. With these advantages, instead of selling their investments when they need funds for their businesses, more and more entrepreneurs are holding on to their investments, allowing them to grow and using this program to fund their business needs.

This article addresses only two of the many different strategies available to get you the funding you need for your new business. Benetrends has proven and innovative funding strategies that make the most of opportunity, while minimizing risk and a legacy of success that goes back decades. When you work with Benetrends, you have the peace of mind, knowing you are working with the best possible partner for taking your business growth to the next level.

/8
David Alan Harvey / Magnum Photos
1 in 8 Americans is struggling with hunger. Including people like your neighbor's child playing outside, the parking attendant at your job, or the coffee shop employee around the corner. Who's the 1 in 8 in your life that needs help?
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*Figure reflects the average annual net sales for all Wingstop Restaurants (23 corporate and 458 franchise) in the system that were open during the entire period from January 1, 2012 through December 29, 2012, as published in Item 19 of our April 2013 Franchise Disclosure Document. Of the 458 franchised restaurants, 185 (40%) had higher net sales during the reported period. The financial performance representation contained in Item 19 of our April 2013 Franchise Disclosure Document also includes average annual net sales information (1) separately for all franchised Wingstop Restaurants, and (2) separately for all company-owned Wingstop Restaurants, in operation in the United States during the referenced period. A new franchisee's results may differ from the represented performance. There is no assurance that you will do as well and you must accept that risk.

BY NATE DAPORE

Cross-Training Employees Pays Off

How e-learning can increase employee value

You are looking to hire a new team member. You've reviewed applications, held interviews, and narrowed it down to two candidates. They both had strong interviews, the same availability, and will take the same hourly salary. The only difference is that one has experience in the role, while the other has experience in the role plus training in other areas that could be useful.

Which one do you chose for the position? The candidate who can fill more than just one role seems like a no-brainer, right? So, if an applicant with the ability to handle more roles seems like the obvious choice, then why isn't cross-training your current employees more common?

Many companies shy away from cross-training, worried that it is too costly and time-prohibitive. Cross-training requires both the trainee and trainer to spend time that could otherwise be focused on operations, and paying team members to put in that extra time to train or be trained is an additional cost most business cannot afford. And this dilemma is growing as the Affordable Care Act requires businesses to focus more closely on employee hours.

For companies that want to cross-train employees, online training can make the process less labor-intensive and more affordable. Web-based training helps key team members remain on the floor, managing the customer experience and spending less time coaching new employees.

With online training, employees can manage the early training stages at their own pace, and as their schedule permits. This allows team members with different levels of experience or aptitude to balance out quickly. Then, all team members cross-training on the floor will already have some of the basics down and learn the next steps more quickly.

Online training can make the process less labor-intensive and more affordable.

High-quality training software allows businesses to develop custom content, with quick creation, easy delivery, and trackable testing. Most e-learning solutions offer training in multiple formats, such as PDFs, SCORM courses (SCORM is a set of technical standards for e-learning software), or videos. Employers can have star employees use smartphones to video quick "how-to" training clips and upload them into a training program.

Reaping the benefits

By setting expectations about cross-training programs on an employee's first day, companies are better equipped to extinguish any "that's not my job" mentality. New hires are introduced into a corporate culture with self-starting expectations. Training team members for multiple roles prepares them to confidently step up to help fill any need when you're in the weeds.

For example, when cashiers are trained to stock shelves and stockers are trained as cashiers, a stocker can step in and open a register during a customer rush. Hostesses can watch videos about server etiquette and practices, and then spend less time cross-training on the floor. And team members who are trained in multiple areas of the business more easily transition into management.

Cross-training your team with online learning solutions helps operations reduce costs (in training materials, labor, and possibly travel), increase scheduling flexibility, reduce turnover, and improve succession planning. As far as team benefits, increasing training and employee value improves team morale and overall productivity.

When the time comes to hire, you know you'll select the candidate with the most value. Take the time now to increase the efficiency of your current team through cross-training. MUF

Nate DaPore *is president and CEO of PeopleMatter. He is passionate about providing team members, including his own, with a rewarding workplace experience that values creativity and innovation. Contact him at 877-230-4088 or info@peoplematter.com.*

2014 CONFERENCES DON'T JUST LEAD...INSPIRE.

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Franchise CONSUMER MARKETING CONFERENCE

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4th Annual Franchise Consumer Marketing Conference,
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Chief Marketing Officers & Marketing Managers

FRANCHISE LEADERSHIP & DEVELOPMENT CONFERENCE

October 15-17, 2014

16th Annual Franchise Leadership & Development Conference
Intercontinental Hotel, Atlanta, GA
Attendees: Franchisors; CEO's, Presidents & Senior
Development Officers

THE BEST IN FRANCHISING

Produced by: FranchiseUpdate MEDIA GROUP

Creating a Great *Employee* Experience

(Hint: it flows from the top)

Where do remarkable customer experiences come from? From your employees!

If you have designs on long-term sustainable growth, think about how you can create a great *employee* experience. Why? Because it is your employees, not you, who create your highly satisfied and loyal customers. Your locations with the best performance and highest customer loyalty scores very likely have the highest levels of employee engagement.

So what is engagement, and why does it matter? Simply put, engaged employees are passionate and enthusiastic about their work. They will further your organization's interests by giving their full discretionary effort; in plain English, they are loyal and they work hard. Their loyalty comes primarily from how they are treated. Your organization must earn employee loyalty, just as it must earn customer loyalty. Two decades of SMG research proves that highly engaged unit managers are the most powerful force in creating high morale and team member loyalty at the individual location level.

How do you create these highly engaged unit managers? Contrary to the old saying, you can never "raise morale." It percolates from the top… from you and the team you assemble to support the field.

Back up and think about this: When your team members who are supporting the field are fully engaged, that will have direct, positive impact on the loyalty of unit managers. Because when you have unit managers raving about the support from "corporate," you have a tremendous lever to increase manager loyalty—which drives both front-line employee and customer loyalty. You have great potential to make your performance support center a great place to work.

Let me share my own "employee experience" as a manager. From SMG's office we support dozens of managers who travel extensively or who work in our international locations. Here are two of the benefits we hear from our employee survey that correlate with high engagement:

• **Great co-workers.** Winners like to work with winners. That comes from a very rigorous employee selection process. All prospective employees are interviewed by, and must win the support of, multiple employees—not just HR. At SMG, we use the same talent selection company as the Ritz-Carlton: we seek people who are customer-focused and high performers.

It is your employees, not you, who create your highly satisfied and loyal customers.

Whatever employee selection system you use, take extra care with who you bring into your company support center. Your people *are* your company.

• **Great culture.** Culture is simply the "way we do things around here." Our folks think it's cool that my desk looks the same as that of a brand new entry-level team member. Fridays are "bring your dog to work day." When it comes to mental health, dogs rule! Also, you would be amazed at how much people appreciate healthy food snacks and fresh fruit at the office, instead of vending machines. And almost all employees participate in Corporate Challenge, a team athletic competition. Work hard. Play hard.

Remember that I said it was feedback from our employee survey that gives us confidence that the elements of the employee experience I've described really do correlate with employee loyalty. That's why I believe in employee surveys. If you don't measure your employees' experience, you should. How else are you going to find out how to become a great place to work? And have no doubt, the only way to consistently create a loyalty-inspiring customer experience is with loyal employees who are willing to give discretionary effort.

Plus, a great employee experience leads to lower turnover. Not only does lower turnover save you money in recruiting, onboarding, and training—which increases your profitability year after year—you also get the positive benefits that come from longer-tenured employees. Loyal employees become more valuable and productive over time.

Next, when they have a great employee experience, your current and former employees will recommend your company as a great place to work! They will usually recommend people like themselves. Don't just wait for this to happen. Give your employees incentives to recommend people they believe in—with a bonus when the new hire reaches six months on the job. You will ultimately spend less on recruiting… and get better results.

Finally, loyal employees who like their jobs and care about doing things right become ambassadors for your organization. When measuring employee engagement, ask, "How likely are you to recommend [your company] as a place to [dine, shop, do business]?" Loyal and engaged employees are far more likely to recommend you to friends and family, and even strangers, when the subject of your business comes up.

To sum up the Service Profit Chain: Engaged employees create loyal customers, which creates profitable sales growth. For consistent year-over-year sales growth, multi-unit franchisees need to dedicate as much energy to creating a great employee experience as to creating a great customer experience. MUF

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

BY JON CLARK

Card-tastrophe?

Why mobile payment processing should scare you

Have you begun processing payments with a smartphone or tablet yet? Perhaps you're seriously considering doing that, as many businesses and retailers have already done. That's wonderful. But here's the bad news: although the number of mobile payments is skyrocketing, the security portion of processing credit cards through mobile devices has been seriously neglected.

Mobile processing (Square, GoPayment, etc.) is a double-edged sword: while it allows greater processing flexibility, it also has the potential to dramatically increase fraud and business liability. The problem with mobile devices is that they weren't made for security or payment processing. Hackers know this, and they are after your customers' profitable payment data.

Mobile devices are exposed to the same threats as computers (malware, viruses, etc.), but the hardware and software are created with significantly fewer security fortifications. Unlike typical POS systems, even new mobile devices don't include firewalls or other safeguards, and they are automatically connected to the Internet. How could a device so innovative and technologically advanced not securely process a credit card? Here are a couple of reasons (there are more).

• **Bad apps.** One of the security drawbacks with a mobile device is that it's difficult to guarantee that an app is malware-free as it enters an app store. Thousands of malicious apps are downloaded through official software stores daily, putting smartphones and tablets at risk for payment card theft. Hackers repackage apps, or create their own malicious apps, intended to be downloaded by unsuspecting mobile users. For example, malicious code could be embedded in a popular flashlight application. Those bad apps have the power to steal credit card information, monitor text and audio conversations, read data from other applications, or even control the actions of the entire device.

• **Lack of security policies.** In addition to bad apps, many organizations fail to implement procedures that dictate the proper usage and storage of mobile devices. Loss, theft, and employee misuse are all security issues easily prevented through franchise security policies.

Fines and penalties

If hackers steal customer data by accessing a franchise's mobile POS system, the business could be held liable by card issuers such as Visa, MasterCard, and American Express under the Payment Card Industry Data Security Standards (PCI DSS). Fines and penalties may follow, which may include forensic investigations and customer notification costs. Some research shows that 80 percent of all small businesses that experience a data breach either go bankrupt or have severe financial difficulties within two years of the breach. Even if you manage to avoid the forensic fines, auditing costs, and card brand penalties, your brand may still face consumer doubt and criticism.

Because your brand is at increased risk with each mobile POS device you deploy, you have the right—and responsibility—to regulate device security. Mobile device vulnerability scanning is a great way to identify which franchisees follow mobile best practice guidelines. I suggest regular testing through a security scanning app. When selecting a mobile vulnerability scanner, check to see if it also includes a mobile device management tool to allow you to remotely wipe devices or check in on security at multiple locations.

5 best practices

Though mobile security is still in its infancy, there are methods to securely process payments using mobile devices.

1. Use an encrypt-at-swipe piece of hardware that attaches to a smartphone or tablet to securely process payment cards. When selecting mobile POS hardware, ensure that it supports encrypt-at-swipe.

2. Don't manually key customers' credit card data—even if a card stubbornly refuses to be swiped! While your hardware card reader may encrypt sensitive information when a card is swiped, your phone does not have that secure capability. Manually typed data is not encrypted, and a rogue app could be recording those card numbers.

3. Always update both OS and app software so any discovered security holes can quickly be patched.

4. Read up on the PCI Mobile Payment Acceptance Security Guidelines for Merchants and follow all the instructions. Ensure your employees are also familiar with the mobile security standard.

5. Use mobile scanning apps to ensure that devices are tested for mobile processing security—and promptly remediate any discovered vulnerabilities.

Not a serious problem... yet

Luckily for all of us, mobile payments are thinly spread among small merchants, and it's likely that hackers are more interested in obtaining credit cards from better known, high-transaction systems. However, as the trend of mobile device payments increases, so will attacks on businesses through mobile devices, resulting in reputation loss and possible fines from card brands. MUF

Jon Clark *is marketing director for SecurityMetrics, a data security and compliance company that offers mobile vulnerability scanning products and PCI services for businesses worldwide. He can be reached at jonc@securitymetrics.com or 801-995-6858.*

AdIndex

BY CAROL M. SCHLEIF

Stick to Your Principles!

9 tips for maintaining balance in your investments

A few months ago, the *Wall Street Journal* ran a front-page story detailing how it's legal for nongovernmental providers of key data series, such as the University of Michigan Consumer Sentiment poll or the Purchasing Managers' Index, to release customer research reports early to those willing to pay for it.

Research reports can move markets, and those who get the business intelligence in advance can make millions from receiving this information early. What's striking is that the early information is received *seconds* before public release—not minutes, hours, or days—and they're still profiting mightily.

This phenomenon is not unlike what's happened in the investment business over the past several decades. Daily trading activity today seems to be dominated by those with hundreds of billions in assets under management, computer-based trading systems, and media-induced "noise"; even as the average time between an asset's purchase and sale has shrunk from a couple of years to a couple of months. So what's the individual investor to do without those advantages? The right mindset and these key investment principles might help level the playing field.

1. Do your homework (or hire someone who does theirs). Investing takes hard work, diligence, and time. Some people love doing it themselves, and ample resources are available today to help. However, it's unreasonable to think you can spend a few hours uncovering some gem that a highly educated professional armed with analysts and a supercomputer hasn't already found. If you don't have that amount of time or energy to devote to the activity, hire a firm with a time-tested and thorough due diligence process for picking their asset classes and specific investments.

2. Know yourself. Do your research, but test your theories with others. Behavioral finance has documented many different ways that we are wooed into making faulty investment decisions. Debating others on investment ideas is crucial and can lead to better and more consistent results, whether your investing is self-directed or done by a financial advisor.

3. Valuation matters. The best fundamental research is useless if you don't pay attention to how over- or under-priced an asset is. The basic concept in investing is to purchase at a discount to what you have calculated the long-term ultimate value is, and then sell when that valuation has been reached or exceeded (or when fundamentals break down). Sounds simple, but many individual investors often get swept up into wanting to buy an asset because it's going up, not because they understand how the current price relates to the intrinsic value.

4. Focus on returns, not prices. Almost any asset has a clearing price on any given day (the monetary value determined by the give and take of the market's bid-and-ask process). In the past few years, as banks in developing markets have shed "bad" credits from their balance sheets, distressed debt purchasers have scooped them up. If you buy at 25 cents on the dollar, you can double your money when someone else buys it for 50 cents. Be primarily concerned about how much you need to get out of the asset to go on to your next transaction.

5. Watch costs. It's been a long time since we've seen normalized inflation of about 3 percent per year, but at some point the global economy will be strong enough for central bankers to let it reappear. Further, tax rates on dividends and capital gains are up 33 percent over last year; 59 percent for those in the top brackets. While the tax tail should never fully wag the investment dog, higher costs and inflation will likely play a much bigger role in investment decisions moving forward.

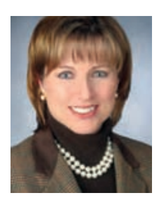
6. Ignore the "noise" in investment news. I had my first quote in the Market Place column of the *Wall Street Journal* when I was 23 years old. I remember thinking to myself how odd that was, given my young age, and from thence sprang my healthy skepticism of quoting "investment experts." Investment journalists need to fill space, and are always trying to back into some excuse for why the markets moved on a particular day. Know what asset you want to buy and at what price. If you've done your homework, you'll be ready to move.

7. Become a trend-spotter. While ignoring the short-term investment rehash, read up on overarching long-term trends—like the implication of 3 billion more people moving into the middle class worldwide by 2030, and what that will mean for real estate, infrastructure, commodities, real assets, and more.

8. Be patient. Sometimes the best decision is to do nothing. If your homework is thorough, you bought your investments at a comfortable discount to their inherent value and the fundamentals are playing out, so it's easier to ignore short-term wiggles and stay put—especially when transaction costs are higher than they used to be.

9. Stop thinking all or nothing. Many folks try to time entry into the market or specific investments in an all-or-nothing fashion, despite reams of analysis showing this is virtually impossible. A well-rounded investment program instead prepares for more than one potential outcome, providing for flexibility and adaptability should the unforeseen emerge.

While it can be tempting to think that the individual doesn't stand a chance today in investing, with a plan and a strong set of guiding principles, ample opportunities exist for success. 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.*

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Please contact Bob at smoothiekingfranklin@gmail.com

Cash Flow Checklist: How Do You Rate?

Check your business for these 20 danger signals!

To most financial advisors, convincing their clients of the *absolute necessity* of maintaining a sound financial system and cash controls—and the need to consistently review, evaluate, and plan—is about as easy as selling first aid. Everyone knows it's there, but we can always "do it later." Besides, "It won't happen to me." Or, "So what? I don't have any control over all that stuff."

You're right, you don't. However, what does this mean for individual businesses? The loud and clear message here is "manage better." When there's less room for error, you must do a better job.

As business owners, we have faced the ups and downs of economic cycles—and probably always will. In addition, technology and social changes have drastically affected many individual industries, not to mention both foreign and domestic competition. The devastating impact of the Great Recession is just the most recent example.

In a positive, expanding economy, the primary focus is on *sales* as an easy indicator of success or failure. Business owners and managers devote relatively little time to efficiency and control, and virtually no effort is made to manage the balance sheet. Then, when the economy changes (as it always does!), or competition enters the scene—or both—profits are squeezed and volume declines. Prices are lowered in an effort to bolster sagging volume. Lower prices translates to lower margins—lose a little on each sale and make it up on volume. High leverage makes debt harder to service and increases interest expense. Suddenly, the areas of control and management become key focal points. In a recessionary or changing economy, survival becomes the key issue and *cash flow* is king. Emphasis switches from profits to cash flow and the highly leveraged, inefficient firms become statistics.

If you've ever attended a Profit Mastery session live or watched our online videos, you know that our primary message focuses on the importance of establishing, maintaining, and using financial controls. In times of rapid growth, I don't get many calls for articles on "cash control." As I said, the emphasis is on sales. When the economy turns or the competition gets tough, I get lots of calls, but there's a problem: for many businesses, it's too late. Inefficiency on the way up has severely drained cash flow and many possible courses of action have been eliminated. Enter a whole new chapter: Chapter 11.

Again, it means the same to you as a business owner: manage better. Run the company lean and mean. Many of you know that I am very partial to the concept of "cause and effect." The cash crisis that we're talking about here is simply the effect of a poor control system, inattention, and/or lack of discipline. We need to answer the question, "Where does the cash go?" For many years, I've used a simple "pitfalls" checklist to identify early warning signals that the cash flow train is vulnerable to derailment.

Cash Flow Checklist

- ✔An excess of unsold inventory
- ✔Buying lots of fixed assets (like trucks)
- ✔Customers not paying their bills on time
- ✔Bank statement reconciled only once a year
- ✔Tax obligations generally late, and getting later
- ✔Missing most supplier discounts
- ✔Writing business checks for personal expenses
- ✔Excessive interest expense from high loans
- ✔Bank loan overdue
- ✔Expenses rising dramatically from past years
- ✔Paying suppliers late, and getting later
- ✔Financial reports only prepared once a year
- ✔Paying bills too early
- ✔Bad debts increasing
- ✔Poor controls, presenting the opportunity for theft
- ✔High-moving items always out of stock, always a "crisis"
- ✔Showing profits, but having no cash
- ✔Payroll checks written late
- ✔Seasonal slump (or boom) creating cash shortage
- ✔No lawyer or accountant

As ye sow...

In business, owners often get trapped because they don't heed the messages their business sends and don't pay attention to basic principles. The accompanying checklist represents a clear set of danger signals—situations and issues—that have a clear and negative effect on cash flow. Take a few minutes under the harsh, cold light of reality to ask yourself how many of the danger signals exist in your business, and then evaluate carefully their implications.

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

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

Remember this: good times don't last, but neither do the bad ones. When things change, you need to be like a good Boy Scout: prepared. So we know planning is the vital element, especially when we're talking about cash flow. Danger signals are just that: signals. The longer you wait, the fewer options you will have. Now is the time to gain control and keep it. By using the cash flow checklist, you'll take positive steps toward being a survivor, not a statistic.

Protect your cash flow lifeline and your business will survive and prosper. Remember this: you pay taxes on net profits, but you eat on cash flow. MUF

Steve LeFever *is the founder and chair of Business Resource Services, Inc. (BRS), a Seattle-based consulting firm that provides financial management education, network benchmarking, performance group facilitation, and bookkeeping services for closely held businesses under its Profit Mastery brand. Learn more at www.profitmastery.net, or contact him at 800-488-3520 x14 or lefever@brs-seattle.com.*


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BY DEAN ZUCCARELLO

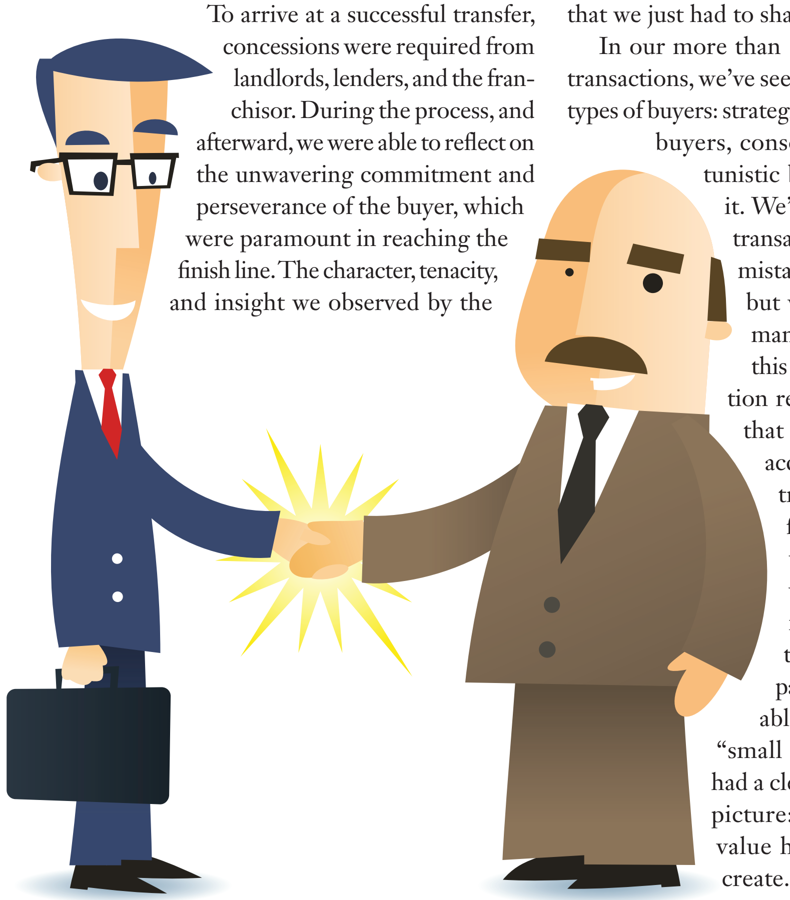
Let's Make a Deal!

Keep your eye on the big picture during negotiations—and persevere

Recently, we represented a multi-unit operator in the sale of a tier-one franchise business that had to overcome numerous hurdles to achieve a successful outcome. The company had suffered as a result of the recession, challenges in the local economy, and some operational challenges on the part of the existing operator. The company was underperforming the brand and lacked the resources needed to pull itself out of its downward spiral. Many units were old and tired, and in desperate need of remodeling. Several units needed to close. Operations had suffered and turnover and employee morale were a continuing challenge.

An acquirer must have a truly intuitive feel for the opportunity up front, and an unwavering commitment throughout the process.

To arrive at a successful transfer, concessions were required from landlords, lenders, and the franchisor. During the process, and afterward, we were able to reflect on the unwavering commitment and perseverance of the buyer, which were paramount in reaching the finish line. The character, tenacity, and insight we observed by the buyer were so compelling and refreshing that we just had to share the story.



In our more than 30 years of doing transactions, we've seen a lot of different types of buyers: strategic buyers, financial buyers, consolidators, opportunistic buyers, you name it. We've seen parties to transactions make many mistakes along the way, but we have also seen many successes. What this particular transaction reinforced for us is that to get it done, an acquirer must have a truly intuitive feel for the opportunity up front, and an unwavering commitment throughout the process. This particular buyer was able to look past the "small stuff" because he had a clear view of the big picture: the tremendous value he knew he could create. The opportunity was not centered on what the seller had or had not done, but rather on what the buyer knew he could do with the business.

The buyer in this instance was a very successful, long-term industry player with a tremendous track record. His focus was on assessing the value of the opportunity and what it meant to his organization—before submitting his offer to acquire the business. He also knew that investments in people, facilities, systems, and operations would result in dramatic improvements to the business. He never lost sight of the prize, and once he decided to move forward all hurdles were treated as if they would be overcome. His focus from the very beginning was to close the deal without getting hung up on the obstacles of the process.

He also understood the importance of demonstrating to the seller that he *was* the right buyer for the business. He removed any doubts about his commitment to close. He resisted the temptation to be "penny wise and pound foolish" in negotiations. Of course, he understood there would be some financial issues from the onset, and factored that into his initial assessment of the business. The buyer was not going to let minor price negotiations (correct as he may have been) kill the deal. Too often, if not truly committed to the big picture from the start, a buyer can kill a deal over minor items that may arise in due diligence. He understood this was the right deal for him, and he wasn't going to let it slip away.

This all sounds simple enough, but often this isn't the case. In a deal world consumed by data, financial models, and over-analysis, many buyers have lost their ability to intuitively assess an opportunity and fail to rely on their instincts.

The ability to assess the future potential of a transaction over a longer-term horizon separated this buyer from an overreliance on trailing multiples or standardized financial models that didn't fully portray the potential of the business. We are not suggesting that financial analysis and due diligence are unimportant; to the contrary, they are a critical part of the overall assessment process. What we are suggesting is to not let historical data completely control your decision-making and lose sight of your ability to stand back and assess the situation.

Furthermore, invest the time up front to define the right strategic characteristics of a transaction for your organization. Not all transactions represent the right fit for all companies. Know what is important to you. Many buyers we come across don't really even know what they are looking for in a transaction. So how can they know if the right situation is staring them in the face when they have no idea what they should be looking for? We are reminded of the old adage: "If you don't know where you are going, any road will get you there."

Finally, if you come across an opportunity that seems to meet your criteria, invest the time up front to fully understand the transaction before presenting an offer. Too often, buyers want to chase and prematurely lock up a deal before they truly understand it, only to back off or re-trade on it once they dig in and assess the transaction. Attempting to understand the details of the business only *after* a deal has been agreed to is often a recipe for disaster—for both parties.

If you come across an opportunity that seems to meet your criteria, invest the time up front to fully understand the transaction before presenting an offer.

In conclusion, establish criteria for what you are seeking in a deal. That way you will recognize the right deal when it becomes available. Do your analysis, but focus on the big picture. Ask yourself, "Given my skills, experience, and organization, what specific avenues to create value does this opportunity present to me?" And then, don't let distractions derail the process: have the tenacity to see it through to a successful outcome.

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

BY DARRELL JOHNSON

The Swahili Lesson

A "lingua franca" for franchising is on the way

Swahili is a language used throughout Eastern Africa. It is a *lingua franca*—a language used to make communication possible among people not sharing a common mother tongue. Some of the Swahili vocabulary derived from Arabic and European languages over many centuries of contact with traders, empire builders, and others. It was the only way commerce could be done without lots of miscommunication that led to mistakes and misunderstandings. While its origin traces back to a single tribe, today it is used by more than 140 million people across many countries.

What does this have to do with franchising? Franchising has many constituencies inside and outside of the execution of the business model. We are all familiar with those operating inside the business model. Some of those trying to communicate about franchising from outside include the media and legislative officials. Unfortunately, many of the constituencies on both sides of the business model speak different languages. Ask someone to define what a failure is, or what an area developer is, within a particular franchise system. Lacking a common set of definitions, we are causing ourselves a considerable amount of confusion and often discomfort.

Is it time for franchising to learn from history and tackle this problem? I think the answer is that we have to for the good of the business model. Take what is perhaps the single most important topic of franchisee success or failure. Even though the media and legislators argue about and use data to support their positions regarding franchisee success or failure, no one seems to know what the definitions should be, let alone the right data to use in assessing such outcomes.

Some say franchised small businesses are more successful than non-franchised businesses. Others say the opposite. They can't both be right. Census data on small businesses in general shows that fewer than half were still alive after 5 years, whether the definition was "new establishments" or "new firms." If that is the bar used to define relative success, franchising shines as an effective business model. Unfortunately, that isn't a very good bar to use, for both definitional and performance reasons.

In franchising, should we talk about the success of a unit, success of a franchisee entity, or success of the owners of the franchised business? How we measure success also must be considered. If a unit or franchisee entity "survives" for a sufficient time, is that success? If the owner remains the owner for some period of time, is that success? Then we get into the nuances. If a single unit closes (for whatever reason) but the multi-unit franchisee entity survives, is that still successful? What about the opposite, when a unit exists for many years but during that time one franchisee entity failed and another succeeded?

> **There's no perfect definition for some franchising terms. There really doesn't have to be. What there does need to be is a *common* definition that is backed by accurate data reflecting that definition.**

There's no perfect definition for some franchising terms on which everyone will agree. There really doesn't have to be. What there does need to be is a *common* definition that is backed by accurate data reflecting that definition. For too long we have tried to contort the information contained in an FDD into things it wasn't intended to do and does very poorly. That is most evident when it comes to an understanding of success or failure in a franchise system.

Lenders mostly gave up on doing so, turning instead to SBA statistics, only to learn of the inaccuracies of that data. That led to the development of FRUNS (FRANdata Unique Numbering System) and BCRs (Bank Credit Reports). "Continuity" is a new term defined for the purpose of understanding success rates. Failure also is specifically defined in BCRs, and failure is defined at the unit level with comparative performance built across franchise brands from that definition. The beginning of a *lingua franca* for franchising is under way.

Going beyond banking applications, what about defining a term that relates the training program a franchisor conducts with the time it takes a franchisee to get a unit to a defined level of performance? Call that the Training Success Ratio. What about relating the initial screening and discovery process with the longevity of franchisees in a franchise system? Call that the Selection Process Index. If we can just free ourselves from the self-imposed chains of FDD language (that itself is poorly defined), we can approach franchisee development and performance benchmarking within and across brands in commonsense ways.

Rather than accept stakeholders speaking in different dialects or being frustrated with not being able to come up with the "ideal" definitions for terms that influence how we operate franchise systems—and how those outside the business model perceive our performance—why not create reasonable definitions and support those definitions with good data? For the banking community, that's exactly what FRANdata is doing with BCRs. We are extending the concept of creating definitions for important franchise concepts and supporting them with data into operational performance areas. That's what Arab traders did for more than 12 centuries and European traders did for the last five centuries. And that's what we in franchising are going to do in the 21st century.

Kwaheri! MUF

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

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