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Multi-Unit Franchisee

ISSUE I 2014

MEGA 99

Don Davey tackles franchising after his NFL career

■ **CREATING LOYAL CUSTOMERS**
Excellent service is the not-so-secret sauce

■ **LEASING TIPS**
The art and science of lease negotiation

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Annual ranking of the biggest operators

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Multi-Unit Franchisee contents

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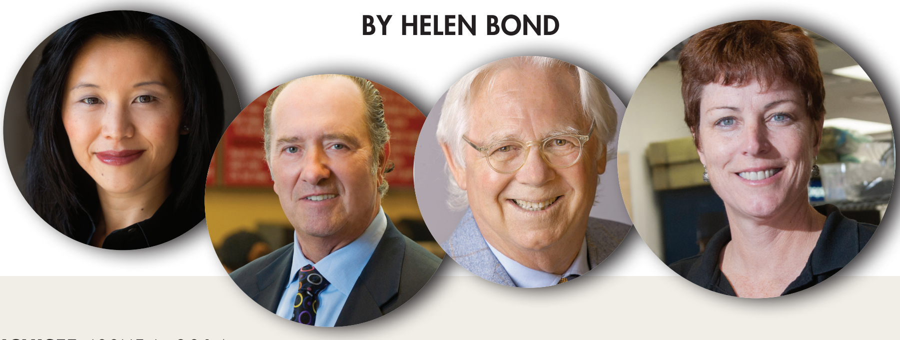

LIVING THE DREAM, LOVING THE VIEW

For the past 20 years, Alan Balen, a multi-unit franchisee, and a group of fellow Checkers/Rally's franchisees have redefined the meaning of "board meeting" with an annual helicopter ski trip to enjoy British Columbia's powdery slopes. "I absolutely love my life. I wouldn't trade what I do for anything," Alan said. "The fact that we work for ourselves gives us the freedom to do things, the rewards from that are phenomenal. The flexibility gave me the time to coach my son's high school football team, enjoy holidays, and family vacations."

Before he became a successful multi-unit Checkers/Rally's franchisee, he and his wife were managing a restaurant in a local bowling alley. But they wanted more, a business venture with a great return, and a better life.

Alan began researching four or five different chains and decided on Rally's, which since then has merged with Checkers. "We decided on Rally's because we really liked the fact that they were really committed to quality and service," Alan said. "We felt in the long haul that's what was going to win."

> "I absolutely love my life. I wouldn't trade what I do for anything."

Twenty-two years later with 16 Rally's and Checkers franchises and counting, Alan said they are still in growth mode. Business is that good! In fact, Checkers/Rally's sales-to-investment ratio is double the industry average.* He said the ongoing corporate support and training is second-to-none.

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*This information is based on a 2013 industry data report published by Restaurant Research LLC and comparing those results with the information we present in our 2013 franchise disclosure document. **The National Restaurant Association 2013 Restaurant Industry Forecast. Written substantiation will be provided on request. THESE FRANCHISES HAVE BEEN REGISTERED UNDER THE FRANCHISE INVESTMENT LAW OF THE STATE OF CALIFORNIA. SUCH REGISTRATION DOES NOT CONSTITUTE APPROVAL, RECOMMENDATION OR ENDORSEMENT BY THE COMMISSIONER OF CORPORATIONS NOR A FINDING BY THE COMMISSIONER THAT THE INFORMATION PROVIDED HEREIN IS TRUE, COMPLETE AND NOT MISLEADING. Minnesota file number F-4351. This advertisement is not an offering. An offering can only be made by a prospectus filed first with the Department of Law of the State of New York. Such filing does not constitute approval by the Department of Law.

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MULTI-UNIT FRANCHISEE MAGAZINE IS PUBLISHED FOUR TIMES ANNUALLY.
Annual subscription rate is $49.00 (U.S.)

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Make Plans Now for the 2014 Multi-Unit Franchising Conference

Fellow franchisees, I wish you all a Happy New Year with much success in your endeavors in 2014. I am very excited to announce that this year's conference theme is "Planning for Growth." With the economy slowly but surely rebounding, and capital access at its best point since pre-recession, opportunities will abound for franchisees to make measurable strides in their business. However, the best growth is intelligent growth, and that comes with proper planning, measurable objectives, and disciplined decision-making.

This year's conference will feature the major aspects of successful growth through the lenses of finance, marketing, and most important, talent management. We are planning sessions with content that is new and fresh, with operators who have mastered these key areas of business. Further, we have structured the tracks so that the content is tailored to the specific needs of operators in various stages of development. Of course, anyone is free to attend any session.

Our keynote speaker this year is renowned author and leadership guru, John C. Maxwell. Maxwell has written more than 60 books with titles that include *The 21 Irrefutable Laws of Leadership*, *Developing the Leader Within You*, and *The 21 Indispensable Qualities of a Leader*. His books have sold more than 19 million copies. In franchising, as in any other area of business, the shadow of the leader shapes the culture of the organization and, ultimately, its performance. In our tradition of bringing the best and most relevant speakers, this is sure to be an amazing session.

The Multi-Unit Franchising Conference is a unique event because it is highly influenced by its advisory board, which is composed of the very best multi-unit franchisees in the country. The board works very hard to ensure that the conference delivers on its promise of being the best venue for franchisees to learn how to grow their business. The best way to learn is from those who have actually done it themselves, and I would like to take this opportunity to thank the board for continuing this tradition of planning the very best conference for franchisees.

I look forward to seeing you at the conference this year, April 23–25, at Caesars Palace in Las Vegas. It will be a not-to-miss event for all multi-unit franchisees.

Best Regards,

Aziz Hashim
Chair, MUFC 2014

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APRIL 23-25 | CAESARS PALACE, LV

PLANNING FOR GROWTH
YOUR PATHWAY TO SUCCESS

✓ CONFERENCES *Multi-Unit Franchising Conference Nears*

Franchise Update Media's annual Multi-Unit Franchising Conference is coming to Las Vegas once again. The event continues to set new records every year, and this one promises to do it again. Expect more than 1,200 franchisees, franchisors, and strategic partners this spring as Caesars Palace plays host to multi-unit franchising's premier event. Mark your calendars for April 23–25 (and for the 22nd as well, if you're planning to play golf). For a look back on the 2013 conference and a peek ahead to this year's event, visit ***www.multiunitfranchisingconference.com***

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

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Great entrepreneurs build great organizations. They possess a knack for making smart business decisions, building great teams, and creating successful companies. But as we've learned from years of interviewing successful multi-unit franchisees, they've also struggled, doubted, and made more than a few mistakes—yet they've soldiered on, persevered, and ultimately come out on top. To provide a deeper sense of their journeys, insights, and personalities, we're selecting franchisees from our most inspiring print interviews and creating a new series of online videos of these franchisee leaders—who we call Empire Builders. ***www.franchising.com/empirebuilders***

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✓ PRESS OFFICE *"Don't just survive, thrive!"*

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✓ PLAYBOOK

"A lot of former NFL players are involved with different brands—they're competitive by nature and are coachable. I tell them, 'Just like the coach hands you a play-book, the franchisor will hand you a manual telling you what you need to do to be successful.'"

—Don Davey, retired NFL left tackle, who now has 15 Firehouse Subs and 6 more under development

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MEGA 99

Mega Movers

Six multi-unit operators who exemplify franchisee success

Not all entrepreneurs have the drive, initiative, and persistence to make it to the top. It takes a savvy operator who can evaluate risk and is not afraid to take it. It also means choosing great brands, assembling a talented team, and attracting raving fan customers to make it all work. Only a handful of operators can pull it off. We found six who did.

For our annual Mega 99 edition, we search out operators with unique stories who have achieved "mega" status. Each has a personal tale to tell, full of hopes and dreams, wins and losses, painful setbacks and triumphant successes. They are textbook examples of all that is good in the world of franchising.

• **Don Davey** spent a decade in the NFL as a defensive tackle before turning to franchising as a second career. He's also founded an equity management company that oversees $150 million in managed assets and a real estate investment company. The busy father of five and triathlon competitor operates 15 Firehouse Subs in Florida, is developing 6 more in Wisconsin, and in 2013 was named the IFA's Franchisee of the Year.

• To say **Michael Kulp** thinks big is an understatement. The 38-year-old is head of KBP Foods in Kansas City, a $250 million company that operates nearly 300 KFCs, Taco Bells, and Long John Silver's in 9 states. He loves to see his people succeed and is committed to actively giving back to his community. His company is regularly ranked in the top 10 fastest-growing restaurant companies in the country.

• **Mike Treadwell** is the consummate small-town boy who made it big. He's gone from growing up on a farm in the northwest corner of Texas to building a large franchisee organization in Springfield, Missouri, where he oversees 75 KFCs, 13 KFC/Taco Bells, 2 KFC/Long John Silver's, 2 Ruby Tuesdays, and 2 HuHot Mongolian Grills. His path to success has been full of hard work and sweat equity, and at 65 he's showing no signs of slowing down.

• **Ted Kergan** is Louisiana's largest Sonic franchisee, with 54 locations across the state. He's overcome some tough times, including the murder of his older brother and business partner, Gary, in 1984. Kergan says it took him years to recover. If nothing else, he has shown remarkable resilience and today says he feels blessed beyond what he ever could have expected.

We also reconnected with two franchisees we've profiled in previous issues.

• **Grant Simon** had 18 Great Clips salons in Atlanta when we profiled him in 2008. Today, he has 39, plus 11 T-Mobile stores and one Smoothie King. In the process, he's added partners and has been growing aggressively. With $18 million in annual revenue, he's not looking to slow his expansion efforts any time soon.

• **David Griffin** had just purchased 25 underperforming Jiffy Lubes in Colorado when we profiled him in 2010. Sales at those 25 stores, which had been recording double-digit declines, are now up more than 5 percent. Today, with his wife Joye and their three sons working for the company, they operate 56 Jiffy Lubes and are planning for more. It's easy to believe Griffin when he says, "I'm having more fun now than I've ever had."

No matter their background, experience, or training, you'll find inspiring stories behind all these successful operators. Whether you have a single unit or dozens across several brands, you're sure to discover something interesting, educational, and even entertaining in the stories of these six multi-unit franchisees.

It's Mega 99 time!

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What Attendees are Saying...

"The Franchise Leadership Conference is a MUST DO for every Senior Franchise Development executive. The knowledge, sharing and agenda is the perfect blend of real world information from executives and speakers. All fact based information to help recharge your batteries and create new strategies for the next year!"

Mark L. Jameson, *Executive VP, Franchise Support & Development,* FASTSIGNS International, Inc., 2013 Franchise Leadership & Development Conference Attendee

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Franchise Update MEDIA

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:

- Franchisee Business Review Top Franchisee Satisfaction Award 2014 and 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 58 locations in 13 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 5 years
- Enterprise growth rate at 35%+ year after year – now opening 2 -3 restaurants per month nationwide
- Minimal start up with an average of $500K - $700K 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!

MEGA 99

BY DEBBIE SELINSKY

Franchising All-Pro

Former NFL tackle parlays his winning ways in franchising

If you ask retired NFL defensive tackle Don Davey to list the qualities needed to succeed in the NFL or in franchising, his list is the same: competitiveness, tenacity, discipline, coachability, and focus.

Those same qualities worked well for him in the NFL, where he played defensive tackle for 10 years, starting with the Green Bay Packers and then moving to the Jacksonville Jaguars, where he led the young team to a berth in the AFC Championship Game in just its second year of existence.

The same qualities he displayed in the NFL have contributed to his success today as the operator of Firehouse Subs restaurants in Florida and as the brand's area developer for Wisconsin. And that success has not gone unnoticed: the IFA named Davey its 2013 Franchisee of the Year.

Add to that his role as founder and senior portfolio manager of Disciplined Equity Management, an institutional money management firm with more than $150 million in managed assets. He also is the owner of Parrothead Properties, a real estate investment company with commercial and residential holdings in Florida and Wisconsin.

"Some people look at my life as hectic and chaotic," says Davey, who earned bachelor's and master's degrees in mechanical engineering at the University of Wisconsin-Madison. "But I thrive with lots of balls in the air. I guess you could say I'm opportunistic. For example, I didn't start out to form a financial advisory business, but I recognized a need among former teammates for quality investment advice from someone who knew exactly what they were up against. I managed my own finances successfully for the 10 years I played, so I know how to help them." Davey says his background in engineering and statistics provides the foundation for the quantitative methods he uses at the firm.

Another example of Davey taking advantage of an opportunity came when he signed on as a franchisee with Firehouse Subs. "My Jaguar teammates and I had been eating at Firehouse several times a week because we loved the food. I got to know Robin and Chris Sorensen there and during a charity golf event. At first they weren't sure they were going to make it, but I stayed close to them and watched them grow over the years, and by the time I retired they were selling Firehouse franchises. My wife Kristen said, 'You eat there so much, you might as well own

NAME: Don Davey

TITLE: Owner/CEO, DKSS Subs, Badger Development Group, and Badger Restaurant Group

NO. OF UNITS BY BRAND: 15 Firehouse Subs plus 6 under area development

AGE: 45

FAMILY: Wife Kristen and five daughters, Livy, 17; Carly, 15; Kuki, 13; Chloe, 10; and Kasey, 5

YEARS IN FRANCHISING: 11

YEARS IN CURRENT POSITION: 11

one,' so I decided to carve out Orlando," says Davey, who now has 13 restaurants in Central Florida.

Raised with four siblings by two "strict but fair" parents in Manitowoc, Wisc., Davey says he shares similar values with the Sorensens, the firefighter brothers who founded Firehouse Subs in Florida in 1994. "They're really good people with great family values. Their mom is the receptionist, their dad does the radio commercials, their sister handles PR, and a high school buddy paints the murals for the stores. They treat their employees and franchisees well. They're just a first-class organization," he says.

Davey especially appreciates the Firehouse Subs Public Safety Foundation. "Instead of throwing away these big buckets our kosher pickles come in—the same kind that sell for $6 or $8 at Lowe's or Home Depot—we sell them for $2 each." He says Firehouse raised $2.7 million last year, and the money goes to local police and fire stations where the money was raised. "It's a great foundation. We're saving lives and keeping people in the community safe by buying bulletproof vests for police, and fire trucks and other equipment for fire stations."

Last year, Davey bought the development rights for Wisconsin—for 42 stores. He's keeping the two stores in Madison, where he went to college, for himself. The contract is for 10 years, but he expects to have all 42 open sooner.

In addition to taking in University of Wisconsin Badgers and Green Bay Packers games each year, Davey has stayed involved with the NFL through the Player Engagement program, which provides assistance and resources to players transitioning out of the league. His friend Troy Vincent, another former NFL player, recruited him for the program's advisory board. "You hear horror stories of guys transitioning out of the NFL," says Davey. "It's a difficult time financially, emotionally, and career-wise. They need help and guidance."

Through his financial management firm and the NFL's Player Engagement program, which offers a Franchising Boot Camp for transitioning players, Davey has helped former players learn about franchising and its opportunities. "A lot of former NFL players are involved with different brands. They're competitive by nature and are coachable," he says. "I tell them, 'Just like the coach hands you a playbook, the franchisor will hand you a manual telling you what you need to do to be successful.'"

Married to his high school sweetheart, and father of five daughters, Davey still manages to find time to feed his competitive sports side. He's competed in six triathlons and will begin training in early 2014 for another Ironman race. "It's hard work, but rewarding. I'm up late and up early to work out. It fits my personality and lifestyle," he says. MUF

PERSONAL

First job: At age 12, I took a job as a paperboy. I was responsible for delivering newspapers on my bicycle in the mornings before school, managing my inventory, collecting payments door to door, and canvassing for new subscribers. It was a great introduction to entrepreneurship.

Formative influences/events: I was the fourth of five children. We were raised by two extremely loving parents who taught us all to value faith, family, hard work, discipline, education, athletics, and having fun.

Key accomplishments: Bachelor's and master's degrees in mechanical engineering from the University of Wisconsin; first and only four-time First Team Academic All-American in NCAA history; Green Bay Packers, 1991–95; Jacksonville Jaguars, 1995–99; 2013 IFA Franchisee of the Year; and six-time Ironman finisher.

Biggest mistake: Opening locations on my schedule rather than waiting for the best opportunities.

Smartest mistake: Granting ownership to my operations partners on day one. People told me I was crazy to give up equity in our entire operation at the outset, but both of my partners have earned their share many times over.

Decision I wish I could do over: I wish I would have purchased even larger development rights for Firehouse Subs. That's how much I believe in this brand.

Work week: 35 hours.

How do you spend a typical day? I oversee and run the business for DKSS Subs and Badger Development Group from my office in Jacksonville. I am responsible for securing financing, selecting sites, negotiating leases, negotiating with contractors, reviewing financials, budgeting, approving invoices, managing cash flow, negotiating vendor contracts, etc.

Favorite fun activities: Spending time with my wife and five daughters.

Exercise/workout: I work out at 5 a.m. seven days a week using a combination of swimming, biking, running, and weight training.

Favorite tech toys: High-speed scanner that is gradually turning our office paperless.

What are you reading? *Catching Fire,* the second installment of The Hunger Games trilogy by Suzanne Collins. My daughter Carly has the whole family hooked on the books and movies.

Do you have a favorite quote? "Carpe diem."

Best advice you ever got: Be self-reliant. (from my father)

What gets you out of bed in the morning? My 4:45 a.m. alarm.

What's your passion in business? As an entrepreneur, I love being completely responsible for both our successes and our failures. It is stressful, but extremely rewarding.

How do you balance life and work? I don't sleep very much.

Last vacation: I took my three teenage daughters to Madison for the Wisconsin Badgers homecoming game against Northwestern.

Person I'd most like to have lunch with: Vince Lombardi or Jimmy Buffett.

MANAGEMENT

Business philosophy: "We are what we repeatedly do. Excellence, then, is not an act, but a habit." (Aristotle)

Management method or style: I grant both of my partners complete autonomy to run day-to-day operations as they see fit and hold them accountable for their results.

Greatest challenge: Finding quality managers committed to our culture of excellence.

How do others describe you? Driven, disciplined, hard-working, and, hopefully, fair.

One thing I'm looking to do better: A core focus is educating our customers that we offer more than hot subs for lunch and dinner. I'd like to make people more aware of our diverse offsite catering capabilities. We offer party platters, party salads, box lunches, concessions at sporting events, and even onsite, made-to-order subs for employees through our "Firehouse Fridays."

How I give my team room to innovate and experiment: Autonomy with accountability.

How close are you to operations? I have daily interaction with both of my operating partners by email, phone, text, or face-to-face.

What are the two most important things you rely on from your franchisor? Exceptional products and marketing direction.

What I need from vendors: Great service, competitive prices, and their continued support of the Firehouse Subs Public Safety Foundation.

Have you changed your marketing strategy in response to the economy? How? Yes. Unlike most brands, Firehouse Subs made the bold decision to increase our investment in marketing during the recession. This allowed us to capture market share from our competitors and put us in a great position as the economy rebounded.

How is social media affecting your business? Social media gives every single one of our guests the power to become an ambassador of our brand to thousands of potential new guests.

How do you hire and fire, train and retain? My operations partners Scott Anthony and Eric Erwin handle all personnel issues. Our crew members are on the front line every day and we trust and value them to be ambassadors of the brand.

How do you deal with problem employees? See above.

Fastest way into my doghouse: Making excuses.

BOTTOM LINE

Annual revenue: $12 million.

2014 goals: Increase same-store sales by 12 percent with the rollout of our new Hearty & Flavorful (under 500 calories) menu.

Growth meter: How do you measure your growth? The bottom line.

Vision meter: Where do you want to be in 5 years? 10 years? I'd like to have 25 more stores in Central Florida and 42 stores in Wisconsin.

How is the current economy affecting you, your employees, your customers? Although the overall economy is recovering, many of our guests are still spending cautiously. We are working harder than ever to be everyone's favorite place for lunch and dinner.

Are you experiencing economic growth in your market? Yes.

What did you change or do differently during the economic downturn that you are continuing to do? We invested heavily in radio, TV, and billboard advertising to capture additional market share.

How do you forecast for your business? Each location has unique variables that affect business. For example, our food court location at the Millenia Mall in Orlando thrives during inclement weather. Our Wisconsin locations see lower traffic during the three hours that the Green Bay Packers are playing. After 11 years, we have gotten pretty good at anticipating these situations.

Is capital getting easier to access? Why/why not? Yes. After an extended period of building their capital bases, many banks are now eager to do loans.

Where do you find capital for expansion? We use a combination of shareholder contributions, shareholder loans, equipment leasing, and conventional bank financing.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We have a great relationship with two different national financial institutions.

What are you doing to take care of your employees? We offer competitive salaries and wages, generous bonus potential, comprehensive healthcare plans, and a defined contribution plan with an employer match. We have a history of promoting from within, so our employees have tremendous opportunities for advancement. In an industry notorious for high turnover, some of our original employees are still with us today.

How are you handling rising employee costs (payroll, healthcare, etc.)? We are proactively customizing our healthcare plan to meet the specific needs of our employees and the Affordable Care Act.

How do you reward/recognize top-performing employees? We have a rotating "Axe of Excellence Award" that goes to the crew with the highest guest satisfaction score for the period. Our general managers compete fiercely for this.

What kind of exit strategy do you have in place? Someone once told me that entrepreneurship offers you the opportunity to create your own utopia. I love our food, our founders, our culture, our brand, my partners, and my employees. Why would I ever leave?

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BY DEBBIE SELINSKY

If At First...

Persistence pays off for Louisiana's largest Sonic franchisee

Ted Kergan's path to success as Louisiana's largest Sonic Drive-In franchisee has been marked by hard knocks.

While his buddies were planning for careers on the auto assembly lines in Detroit, Kergan, who always had an entrepreneurial bent, hired on with a motivational company after high school, hoping for a different kind of life. He says his three years there helped him conquer his shyness.

Toady he laughs when he talks about one get-rich-quick scheme he and his older brother, Gary, cooked up as young guys. "My brother and I had this idea that if we could sell a million of anything for a dollar, we'd make a million dollars," he says. They found a New York company willing to make a million beer coasters on credit. They hired someone to put the (then) highly popular smiley faces on the coasters and dip them in cherry-flavored liquid—and tried to sell them as air fresheners at auto parks and car washes. "It took us nearly two years to get rid of those things," Kergan says.

His brother got involved with Sonic

NAME: Ted Kergan

TITLE: CEO

COMPANY: Kergan Bros. Investments

NO. OF UNITS BY BRAND: 54 Sonic Drive-Ins

AGE: 59

FAMILY: Wife Ann, son Jean-Luc, 13

YEARS IN FRANCHISING: 36

YEARS IN CURRENT POSITION: 29

PERSONAL

First job: Cutting grass and shoveling snow at age 8, followed by a paper route at 12. My first hourly job was in a hardware store at 16. I've only had two real jobs. Everything else I have done has been entrepreneurial.

Formative influences/events: Three years working in a motivational company starting when I was 18.

Key accomplishments: My family.

Biggest mistake: Expanding too quickly.

Smartest mistake: In 2002, I decided I didn't want to spend so much time on the road, so I sold my Florida and Mississippi units to be close to my family. I worried at the time, but it turned out to be the right move since restaurants down there have been pulverized in the downturn.

Decision I wish I could do over: I don't look back. A lot of things happen for a reason even though you can't see it at the time.

Work week: Well, it's the restaurant business, so I work as needed. I try to be more efficient and work smarter, not harder. I'm getting pretty good at multi-tasking.

How do you spend a typical day? I typically focus on the customer experience. Then I coach from there. I'm lucky that all my locations are in Central and South Louisiana, and I can get to them in a couple of hours at most. Still, we have 54 restaurants, so I use technology to monitor things, too. It can be as high-tech as our back office system and as low-tech as having a camera in the store to see what's going on.

Favorite fun activities: Hunting, boating, traveling.

Exercise/workout: I get to the gym three times a week usually, and I have a 13-year-old son and lots of acres at home, so we spend time out there playing.

Favorite tech toys: iPad.

What are you reading? *Zealot: The Life and Times of Jesus of Nazareth* by Reza Aslan.

Do you have a favorite quote? "A task expands to fill time." What this means to me is that you can make a dramatically positive impact on your operations today, right now. Long-term service improvement programs are really more like procrastination.

Best advice you ever got: You don't ask, you don't get.

What gets you out of bed in the morning? Mostly I can't wait to see what is going to happen.

What's your passion in business? In our organization, our managers are actually partners. About 80 percent of those managers started as hourly crew people. It's very cool to watch them work their way into being a successful business owner and making a six-figure income. In every case, it is way, way beyond anything they ever expected.

How do you balance life and work? I focus on the things that are really important to me and fill in the blanks around that.

Last vacation: Last summer, the three of us flew into Canada, fished in northern Ontario for four days, then took a two-day train ride across Canada to Vancouver, and finished up with a week at the Four Seasons in Whistler. Awesome! When my son is older, I'd love to do some big game hunting in Africa.

Person I'd most like to have lunch with: My father. He died of a massive heart attack one day after I was born.

in Oklahoma, and a year later Kergan came on board. In 1977, their younger brother became a managing partner in a Louisiana Sonic. "I didn't know food cost from the other side of the moon," he says. "The first two days I worked there, I stayed up all night to try to figure out the books and numbers." In 1979, the brothers bought their first Sonics and began to buy or build a new unit every year or two.

Tragedy struck in 1984 when Gary disappeared unexpectedly and evidence pointed to murder. It wasn't until DNA evidence emerged in late 2012—nearly three decades later—that the two suspects were formally charged. Kergan can't talk about the litigation but he remembers the shock of losing his brother and business partner.

"It was a stressful situation that took me a couple of years to recover from," he says. "In 1986, I started building the company again, but when my son was born in 2000, I decided I didn't want to spend so much time on the road and I

MANAGEMENT

Business philosophy: The way that I am successful is to train others to be successful and always to take the high road.

Management method or style: Positive but honest coach.

Greatest challenge: Getting others to see what great service really looks like. There are so few examples of it in today's world that employees don't understand what they are trying to mirror.

How do others describe you? I guess you would have to ask them, but I hope they'd say I'm supportive and fair.

One thing I'm looking to do better: Be a better person and listen more, because everyone has a great story.

How I give my team room to innovate and experiment: By making a big deal out of it when we see those behaviors turn out positively.

How close are you to operations? Very.

What are the two most important things you rely on from your franchisor? To not over-develop the markets and to lead us in marketing and research.

What I need from vendors: Communication at the earliest sign of trouble.

Have you changed your marketing strategy in response to the economy? How? The challenge is how to improve the guest's value perception without discounting everything to $1. I think we have accomplished that. The "how" is proprietary.

How is social media affecting your business? It's huge, and it will be a bigger part of our business every year.

How do you hire and fire? I think of us as operating like the NFL. We're actively looking at people who work for the competition to see if they'd fit into our organization as opposed to waiting for an open position. I had a friend in Sonic who used to go in stores and buy something, take it home and break it, and then take it back to see how the situation would be handled. If a salesperson handled it correctly, he'd hire him.

How do you train and retain? Training is an ongoing thing. Too many people think that you train an employee once and then you are done. We retain people by caring about them.

How do you deal with problem employees? We try to always take the high road. If we do, we're about to turn that person into the most important person in our world: a customer. On the other hand, you don't want to penalize your great people by kowtowing to a problem person. Turnover is not necessarily a bad thing, sometimes you just make a bad hiring decision.

Fastest way into my doghouse: If you follow the dog, he will always lead you to the doghouse. Instead, follow the people you admire.

sold my stores in Florida and Mississippi."

Today, as CEO of Kergan Bros. Sonic in Lafayette, La., Kergan has 54 units and more than 1,500 employees in his multi-million-dollar company and says he feels blessed beyond what he ever could have expected. "I'm certainly grateful for the opportunities that got me where I am today. Sonic, under the leadership of Cliff Hudson, is a great organization with great folks."

He's pleased, too, that his job has turned out to be so much fun. "At Sonic, we sell fun. We have girls on roller skates and cherry limeades. All we do has to fit into the 'fun box,'" he says. "Our success is a combination of our food and how we serve it."

Kergan's personal business success is built on convictions like this: "I'm always upgrading the restaurants. If a unit starts looking tired, I tear it down and rebuild or refurbish it. I'm a big believer that the customers want to come into the nicest facility on the street. Not something funky—that's like putting lipstick on a pig—but something genuinely striking. That shows respect for our customers and our employees."

His best advice for would-be franchisees is simple, and something that has worked for him. "Go find somebody who does something you don't know how to do and follow them around. Most people are willing to take the time if you ask them." MUF

BOTTOM LINE

Annual revenue: Proprietary.

2014 goals: We're going to see how far ahead of the pack we can get. We have such a different take on customer service that, at Sonic, we can do that. Our competitors have a square box on the side of a window, while we have girls on roller skates and cherry limeades. We sell fun.

Growth meter: How do you measure your growth? Customer count is the real indicator of how well we are performing.

Vision meter: Where do you want to be in 5 years? 10 years? We've never had a goal on the number of units we open. If you do that, you're making a decision based on an arbitrary number instead of looking at how many back-up managers you have and whether plant closings are coming up in town. We're more focused on the quality of the units we have.

How is the current economy affecting you, your employees, and your customers? We focus on the entire guest experience to deliver added value to compensate for outside influences.

Are you experiencing economic growth in your market? Yes.

What did you change or do differently during the economic downturn that you are continuing to do? Actually, we didn't change. We continued to build new stores, to replace older units with new facilities, to add and upgrade equipment, and to add top-tier talent. We felt that it was a sound strategy to continue improvements so that when the economy turned positive, we were ready for it. We wanted to be proactive, not reactive. Our results have confirmed this was the right decision.

How do you forecast for your business? We feel that we have total control of our destiny. We know that our customers will respond to excellence in facilities, products, and services.

Is capital getting easier to access? Why/why not? We have a history of consistently high sales and financial performance through all kinds of economic situations over the last 36 years, so getting capital has never been a problem for us.

Where do you find capital for expansion? We tend to use community banks as that is where you can meet one-on-one with the decision-maker. Also, they're familiar with us and they know us. We also capitalize internally, as we feel our operations and real estate offer us terrific returns.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Yes, we use local banks. National banks have too many layers. We never use private equity. If you don't run an operation daily, you can't be a partner in our company.

What are you doing to take care of your employees? A lot—and a lot of that is proprietary.

How are you handling rising employee costs (payroll, healthcare, etc.)? Certainly these are ongoing challenges, but we prefer to look at these as investments in our guests' experiences, rather than expenses. We have expended significant resources, so we really understand the options.

How do you reward/recognize top-performing employees? We do contests and bonuses. We change it up every year to make it fresh. One year, every time someone got mystery shopped we gave the store a big-screen TV. What happened was we gave away so many that in one store every person ended up getting a TV. They'd see us coming at Best Buy and say, "Oh, boy!" We also have a convention for our managers, maybe take them on a cruise, and we take managers and some employees to the Sonic national convention.

What kind of exit strategy do you have in place? Why would I want to leave? This is a great deal! Anyway, a few months ago we had a meeting of our 54 managing partners, one lead assistant manager from each location, our supervisors, and our office staff. My assistant added up the experience of these people and we have over 1,000 years of Sonic experience.

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BY DEBBIE SELINSKY

All-Around High Achiever

Measuring success by how many people he helps reach *their* goals

In a time when many business executives are looking at what to cut because of rising payroll and healthcare costs, Michael Kulp, president and CEO of KBP Foods, a $250 million restaurant company with units in nine states, is taking an "inverse" approach.

"We're using our growth as a vehicle to handle costs rather than shrinking the business down," says the 38-year-old Colorado native. "We're making sure that our growth and cash flow outpace the costs of healthcare and payroll." This approach illustrates what Kulp finds most rewarding about his job, he says. "Our mission is to develop our people personally, professionally, and financially."

With that goal in mind, KBP Foods,

NAME: Michael Kulp

TITLE: President & CEO

COMPANY: KBP Foods

NO. OF UNITS BY BRAND: 230 KFCs, 47 Taco Bells, and 4 Long John Silver's

AGE: 38

FAMILY: Wife Stephanie, three children

YEARS IN FRANCHISING: 8

YEARS IN CURRENT POSITION: 4 (since we restructured in 2010)

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which includes nearly 300 KFCs, Taco Bells, and Long John Silver's, took another major step. "In the last three or four years, all of our key employees have become equity holders and we've completed recapitalization that provided them their first liquidity event," he says. "It's been my dream to make our key stakeholders true equity partners. It's one of the most gratifying events I've ever had as a franchisee."

His desire to give back was instilled early in Kulp, who grew up humbly with divorced parents, both of whom were teachers, and five brothers and sisters. "My mom taught special education for 35 years, so I was constantly in contact with people less fortunate than I," he says. "I always had a burning desire to make sure any future business success was paralleled by the success of others we could help."

That's why each regional vice president in the company is required to sit

"If you stay focused on helping others achieve their dreams, you'll go much further in life."

PERSONAL

First job: Cook in a local fast-food restaurant.

Formative influences/events: Watching a couple of business owners in franchising sparked my interest in the industry and how it provides great opportunities for people without such deep pockets. My first mentor was Gary Zancanelli, who purchased the original KFC where I was employed.

Key accomplishments: Most important is our organization's involvement in charity work throughout the country. We contribute to a group in Kansas City called First Downs for Down Syndrome, the Atlanta Children's Shelter, and the Dream Center for Tampa, which offers after-school care and mentoring. We also raise funds for the Kansas City Harvesters Food Bank and a Virginia charity that assists families economically burdened because they have family members in the military protecting our country.

Biggest mistake: Probably gravitating toward my strengths educationally. I wish I'd taken more courses in financing and accounting as opposed to marketing and management, which came naturally to me.

Smartest mistake: There were a couple of large-scale acquisitions we considered after restructuring that we dragged our feet on because we felt due diligence needed to go deeper. When we lost them, we were distraught. However, it turned out to be a blessing in disguise because the franchisees that bought these companies are now in financial distress in a downward market.

Decision I wish I could do over: Early on, we hesitated to bring in the right level of financial leadership. We're in a great spot today with our CFO, but with our reactive financial planning, we dug ourselves into a hole and it took us 2 years to catch up.

Work week: As needed. Unfortunately, we have a lot of needs. I spend 30-plus weeks a year on the road. Since I'm away from my family, I try to take full advantage and spend as much time with people as I can. The regional VP and I host future leaders' breakfasts, in which we encourage them to grow in the restaurant world and educate themselves on what we do differently from the competition. I visit restaurants for most of the day and end with cocktails or dinner with the above-store leadership team. When I'm in the office in Kansas City, work is less demanding and I stay fairly true to weekends with my family, attending sporting events and spending time with the little ones.

How do you spend a typical day? When I'm in town, I'm up early to see the kids off to school. I like to start my day with meetings outside the office, and I have several mentors and resources I breakfast with each week. When I walk into the office, I dedicate myself to what I'm doing there, ending my day with one-on-ones with my team until 5 or 6 p.m.

Favorite fun activities: Golf, attending sporting events, and hanging around with my kids.

Exercise/workout: Not as often as I'd like.

Favorite tech toys: iPhone.

What are you reading? *Beyond the Final Score: There's More to Life than the Game* by Tom Osborne, the former Nebraska football coach.

Do you have a favorite quote? "Every leader deserves the team that he has."

Best advice you ever got: Probably the Golden Rule. As you become successful, you can't forget that the people around you make you successful. If you stay focused on helping others achieve their dreams, you'll go much further in life.

What gets you out of bed in the morning? Our team. We have the best team of any quarter-billion-dollar business in the industry and I truly look forward to spending time with them. I'm the youngest member of the executive team by far, and the intellectual stimulation I get from trying to stay one step ahead of them keeps me motivated.

What's your passion in business? People development.

How do you balance life and work? By being present and having things that I truly won't give on. I've learned that my wife and kids don't need 20 hours of my day. But when I'm with them, I'm with them. If I'm in a corner of the room talking on the phone or answering emails, it's harmful. No matter how important board meetings are, there are certain things you just don't miss in life.

Last vacation: Mexico with my wife in October. We take a couple of trips together each year and then we take the kids other places.

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

on the board of a charity and participate in fundraisers each year. "In Atlanta, we just raised $150,000 for the children's shelter. That's out of a $1 million budget, so we're making a big impact by using our restaurants to sell coupon books throughout the year," says Kulp, who holds bachelor's degrees from the University of Colorado in marketing and Colorado Mesa University in management.

The high-energy family man and self-described "avid, ongoing student" says he's had his hands full since KBP has regularly ranked in the top 10 fastest-growing restaurant companies in the U.S.—but he still takes each person in his office out alone every year. "As fast

MANAGEMENT

Business philosophy: To provide personal, professional, and financial growth to all key stakeholders.

Management method or style: To hire the best, challenge them, praise their efforts, recognize their progress, and reward their results.

Greatest challenge: It's all on the people side, attracting, hiring, and retaining top talent.

How do others describe you? High-energy, fairly intense, tenacious.

One thing I'm looking to do better: I need to take better care of myself.

How I give my team room to innovate and experiment: Ours is a pretty unusual structure with each regional VP an equity holder in the business. They're the decision-makers in the region and are given absolute autonomy and responsibility.

How close are you to operations? Pretty close. I joke all the time with our lead guy that his job is to make sure he keeps the COO title from me.

What are the most important things you rely on from your franchisor? Strategic and brand leadership, standards that create a consistent experience for the consumer across the franchisee base, and keeping the guy down the street from hurting our business.

What I need from vendors: They're our partners, and we help them understand that we see them as an extension of our business and expect them to act that way.

Have you changed your marketing strategy in response to the economy? How? Absolutely we changed. The economy exposed some of our value challenges. So we're doing two things differently: paying closer attention than ever to the consumer side of our retail offerings, and doing a better job of looking at different demographics in the same city from the local market standpoint. We're competing with the guy up the walkway, not just the guy with commercials on national TV.

How is social media affecting your business? The effect is huge. Some guys we've not seen as competitors from an advertising point of view can now touch people in a cost-effective manner and drive loyalty in those businesses. It's also created a different sensitivity around core brand issues. If consumers want to broadcast something to the world, they can do it in seconds, so we're improving the way we handle negative situations with customers.

How do you hire and fire? We hire slowly and fire fast. We put millions of dollars into a very sophisticated, proprietary industrial psychological process for new hires up front, and we do multiple rounds of interviews at all levels of the organization.

How do you train and retain? Retention is all about personal connections. The company sits in Kansas City, but we try to provide tools to help our team create a work environment folks want to be part of. Retention is the number-one reason we've been in the 10 fastest-growing restaurant companies in the country for a while now. I've said for years: People don't wait on positions in this company. Positions wait on people. When they're ready, there's a spot for them.

How do you deal with problem employees? Quickly. On the back of our values card, there's a statement we borrowed from GE that says: When people have poor results but good values, we can coach them. But when people have fundamental values issues, they are removed.

Fastest way into my doghouse: An honesty or integrity breach. Mistakes are fine as long as you own them.

as we're growing, I've tried to stay true to the one-on-one time we had when we were a smaller organization," he says. "It's demanding from a time standpoint, but I'd much rather have lunch or a late afternoon glass of wine with a person from our office than sit in front of a computer screen for hours."

Kulp, who has always worked in restaurants and bought into an existing KFC franchise in 2006, remains highly aware of the juggling act that is life. "On the back of all our birthday cards to employees, we describe the five balls that we juggle in life as work, spirit, health, friends, and family. Only one—work—is rubber. If you drop it, it bounces back. The other four are glass, so if you drop them they break. We need to keep that in perspective." MUF

Kulp remains highly aware of the juggling act that is life.

BOTTOM LINE

Annual revenue: $250 million.

2014 goals: One real goal every year is to be the best operating restaurant company in the country. In our operating plan for 2014 is $100 million in revenue growth through acquisition.

Growth meter: How do you measure your growth? It's easy to measure P&L and bottom line. Beyond that, the biggest measure of our success is how many people we help reach their goals.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, we'll be diversifying to keep up with our growth plan and will have established a second flag under our holding umbrella. In 10 years, I would love to own my own brand.

How is the current economy affecting you, your employees, your customers? The biggest effect is on the competitive environment; we're now seeing competitors not historically placed in the value game, which brings more pressure. On a positive note, we're expecting good commodity deflation in 2014, so that's going to help us further compete in value. Beyond that, we work in lots of urban trade areas where teams are still under financial distress. The challenges our key employees are facing more broadly are affording healthcare, taking care of reliable transport, and finding enough hours without working a second job.

Are you experiencing economic growth in your market? It varies by region since we're in nine states. Atlanta and Florida are experiencing some growth, but Virginia and North Carolina are not.

What did you change or do differently during the economic downturn that you are continuing to do? We did what most people did: looked differently at every single line on our P&L. It made us a better operating company because we found a lot of waste we weren't focused on. One thing we did was cut out any unnecessary investments in things unrelated to the infrastructure.

How do you forecast for your business? We have a fairly sophisticated POS platform in our business that keeps us on top of things. As far as growth, we educate ourselves a lot, attending conferences and reaching out to industry executives to stay abreast of what's coming and its implications on our business and brands.

Is capital getting easier to access? Why/why not? Absolutely. We're in a little different situation, since we've operated from profitability in the top tier of our brands for years, so we have constant access to capital. Even in 2009 in Florida, we found it. Today banks are competing for our financing.

Where do you find capital for expansion? We use both institutional private equity and large syndicate banks. Our four-bank structure is Wells Fargo, Cadence Bank, Bank of Montreal, and CrossFirst Bank. Our philosophy is that the single most important thing we can do is secure our underlying and financial structure.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We've used the above-mentioned banks and added in private equity because we wanted to remain conservative.

What are you doing to take care of your employees? There's an annual contest where we take the top 10 percent of the company with their families for a three-day celebration in Key West. We bring high-performing people to Kansas City for two days with our Ambassadors of Excellence program. We give them development training, not restaurant-related, but more soft skills, like how to dress and how to interview and shake hands. We also have a profit-sharing program at the unit level and equity partnership for regional-level team and above.

How are you handling rising employee costs (payroll, healthcare, etc.)? We've always offered a fairly robust healthcare plan for our segment and size of company. There's been some shift in resource allocation, but nothing huge or complicated. We've taken a different approach by using our growth to handle costs rather than making cuts to the business.

How do you reward/recognize top-performing employees? We do little stuff, like sending 500-plus handwritten cards a year (every anniversary, every birthday). The bigger stuff includes a cleaning contest at the first of every year. There are four rounds of judging and we send the winners on a cruise. We have 12 store-level managers who are elected to our Managing Partner Council, and I meet with them once a quarter by phone and talk through issues. Every single time when we discuss incentives, they tell me that doing things that show you really care count most with our employees.

What kind of exit strategy do you have in place? Two or three people inside the business have the ability to replace me. I don't ever plan on completely exiting the business, but I'd love to get to the place where my role was more of chairman or board only and less of the day-to-day. The recurring nature of our liquidity events provides a smoother succession transition than most.


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BY DEBBIE SELINSKY

Not One for the Money

"I do it for the fun," says Mike Treadwell

When he was a young man fresh off the farm in Dalhart, Texas, Mike Treadwell wanted to stretch his entrepreneurial wings by opening a restaurant. First, he opened an Alfie's Fish 'n Chips in Amarillo, then a Mike's Fried Chicken & Fish.

One day, a friend who operated a nearby taco stand came over and asked Treadwell about his food and labor costs. "I said, 'Heck, I don't know. I've got money in the bank so I guess I'm doing okay.' He said, 'Oh Mike, you've got to know your food and labor costs if you're going to be in this long term,'" Treadwell recalls. "I thought at the time that I wasn't smart enough to do this."

Deciding he needed to educate himself about the food and franchising business, he sold both of his restaurants and moved to Little Rock to manage a KFC restaurant for a franchisee.

That franchisee sold out to a bigger franchisee, Scott's Foods, and Treadwell

NAME: Mike Treadwell

TITLE: Owner & CEO

COMPANY: Treadwell Enterprises

NO. OF UNITS BY BRAND: 75 KFCs, 13 KFC/Taco Bells, 2 KFC/Long John Silver's, 2 Ruby Tuesdays, 2 HuHot Mongolian Grills

AGE: 65

FAMILY: Married to Marla, 2 daughters and 3 grandsons

YEARS IN FRANCHISING: 25

YEARS IN CURRENT POSITION: 11


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PERSONAL

First job: Restaurant GM of a KFC in Little Rock.

Formative influences/events: My former partner Dick Pendleton was a significant influence in my career and gave me the opportunities I needed to become who I am today.

Key accomplishments: Working my way up in the company and acquiring ownership along the way. This ultimately allowed me to purchase the business and become my own boss.

Biggest mistake: Not doing adequate research into site selection for restaurants.

Smartest mistake: Investing more than most thought was wise in the relocation of a KFC in New York. That investment resulted in the store becoming the highest-volume, revenue-generating KFC I own.

Decision I wish I could do over: I wish I had created a concept to compete with a well-established brand.

Work week: Six days. I try to take half a day off on Saturday and Sunday, but this business is 24/7.

How do you spend a typical day? I typically spend Monday in the office, then travel to spend time in restaurants the rest of the week.

Favorite fun activities: Peacock bass fishing in the Amazon and working in the business.

Exercise/workout: I have an exercise room in the office that I never use.

Favorite tech toys: iPhone and iPad.

What are you reading? All trade journals related to the restaurant industry and *The River of Doubt: Theodore Roosevelt's Darkest Journey* by Candice Millard.

Do you have a favorite quote? I always say, "We are thrifty, not cheap."

Best advice you ever got: Never give up. In our business you will always have highs and lows, so you better understand that and never give up!

What gets you out of bed in the morning? I really enjoy what I do. This is not work to me, this is something I have been blessed to do.

What's your passion in business? I enjoy seeing those on our team grow and succeed.

How do you balance life and work? It's pretty easy. I love what I do and feel like I am on vacation every day.

Last vacation: Alaskan cruise.

Person I'd most like to have lunch with: Warren Buffet.

MANAGEMENT

Business philosophy: To encourage my team to always think like entrepreneurs while working within the franchise guidelines.

Management method or style: I am pretty easygoing. My passion is to be in the restaurants coaching and encouraging the teams.

Greatest challenge: Finding, hiring, and retaining great employees, and labor and food costs.

How do others describe you? Fair, caring, and easygoing, as well as firm and direct regarding standards and protocols.

One thing I'm looking to do better: Operate better restaurants; be the best we can be at what we do.

How I give my team room to innovate and experiment: I give my team autonomy and empower them to make the decisions necessary to run the business.

How close are you to operations? Very close. I am in my restaurants almost every week.

What are the two most important things you rely on from your franchisor? Strong leadership and solid marketing of the brands.

What I need from vendors: Our vendors are our partners, so I need them to be honest, timely, and fair in our dealings.

Have you changed your marketing strategy in response to the economy? How? Because of the soft economy, consumers are focused on getting more for their dollar. We have responded by focusing more on the value of the menu items that we offer.

How is social media affecting your business? Social media has and will continue to have an impact on the business. Consumers and employees can quickly and easily report both good and bad experiences. It is vital for any company to stay on top of what is changing in the realm of social media from both the consumer aspect and also the employee relations aspect.

How do you hire and fire? We have recently adopted a culture of "Everyone's a recruiter." This means that every member of the team should be looking for individuals who are genuine, motivated, and committed to serving our guests with pride and inviting them to join our team. We strive to ensure fair and consistent treatment of all employees. As a company we do not fire employees. Employees make poor choices that are not aligned with our policies and procedures resulting in employees essentially firing themselves.

How do you train and retain? We use several different methods, such as The Learning Zone (provided by KFCC), in-person classroom settings, and on-the-job training to train and retrain our team members. We ensure that we stay compliant with the standards of the brands I have chosen to represent.

How do you deal with problem employees? We address issues head-on, first with coaching, and if the behaviors do not show sustained and significant improvement, we move to progressive discipline as warranted.

Fastest way into my doghouse: Being dishonest and demonstrating a complete lack of care for others and the company.

went along as director of operations. When Scott's sold out to PepsiCo, he stayed again, as operations director. After spending time as a division training leader in Dallas for KFC Corp., he was given an opportunity to work for Restaurant Systems in Springfield, Mo., which had started building KFC restaurants there.

"The only way I'd go, I told them, was if they gave me a chance at sweat equity, and they agreed," Treadwell says. After opening 18 KFCs across Texas, he became president of the company and a full partner with the owner. When his partner decided to retire, they sold off 18 stores and Treadwell used his share to buy him out. Treadwell was left with about 3 dozen restaurants, and in the late 1990s formed Treadwell Enterprises, which today has nearly 100 restaurants encompassing five brands across eight states.

"If I'd done it just for the money, I'd have been bored long ago. I do it for the fun."

If all that sounds like hard work, it was, Treadwell says, but there's more to it for him than the bottom line. "I get up every day excited about what I'm going to do today to improve the business or different restaurants. I get a kick out of it. If I'd done it just for the money, I'd have been bored long ago. I do it for the fun. I love what I do and I have a great team," he says.

Treadwell, still going strong at 65, says his favorite thing to do outside the office is to take exotic fishing trips on the Amazon River, and offers his own "formula" for building a successful multi-unit business. "I've always thought that the trick to this business is to have three restaurants. After you've done your homework, you can make a living from one, grow from the second, and do remodels and new equipment purchases out of the third," he says. "But you've got to enjoy it or it won't be successful." MUF

BOTTOM LINE

Annual revenue: $100 million.

2014 goals: 3+ percent increase in sales.

Growth meter: How do you measure your growth? I look at the performance (sales and profits) of each individual restaurant.

Vision meter: Where do you want to be in 5 years? 10 years? My long-term goals are to continue to acquire solid performing restaurants.

How is the current economy affecting you, your employees, your customers? The soft economy has affected me, my employees, and our customers significantly. Customers are not making unnecessary purchases. They are looking for value, which means that we must offer menu items they consider to be a value.

Are you experiencing economic growth in your market? We operate in multiple markets. Our company as a whole is trending negative for the current year [2013], but we do have several locations that are experiencing growth this year.

What did you change or do differently during the economic downturn that you are continuing to do? We became more aggressive from a value-to-our-consumer perspective, reduced overhead, and implemented tighter management controls of every aspect of our business. We are more aggressive today in controlling labor costs and food and paper costs than we ever have been before.

How do you forecast for your business? We review sales daily and analyze prior trends compared to known events in the future.

Is capital getting easier to access? Why/why not? Yes, investors and banks have been yield-starved for a long time and are now putting their sidelined cash to work. This is creating a very strong environment for operators to grow their business in.

Where do you find capital for expansion? Banks and large lending institutions.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We have used all of the above. Early on we used local banks because we had a relationship with them and it was easier to tell our story and get things accomplished. As we grew, it became easier to attract large national banks to our business as well as private equity. The larger the institution, the larger the deal they are looking to do.

What are you doing to take care of your employees? Our employees are the greatest assets to our business. We strive to ensure that their safety, health, and overall well-being are first and foremost. We offer competitive compensation packages and take time to make sure that each employee knows how much their effort is appreciated.

How are you handling rising employee costs (payroll, healthcare, etc.)? Employee costs are increasing exponentially. Because of this we hold all levels of our team accountable for controlling these costs on a daily basis and are constantly looking for ways to streamline our business and reduce our costs. Healthcare costs have created many challenges for the restaurant, and I suspect will continue to do so over the next several years. The larger the employer, the more costly it is.

How do you reward/recognize top-performing employees? We reward/recognize top-performing employees through our "PRIDE Every guest—Every visit" recognition program, in our Fried with Pride Newsletters, birthday cards, service awards, sales incentives, bonuses, and career advancement.

What kind of exit strategy do you have in place? I do not have one at this time.

BY KERRY PIPES

Family Success Story

David and Joye Griffin and their 3 sons prosper in hard times

When we profiled David Griffin in 2010, he had just purchased 25 Jiffy Lube stores in Colorado. The stores were underperforming, some were dilapidated, and the U.S. economy still at one of its all-time lows. Those factors created a perfect storm for Griffin to expand—but it wasn't a walk in the park.

"We've spent the last three years reviving those units, and it has been a monumental task," says the 56-year-old today. Griffin says it took millions of dollars to turn around those 25 struggling locations—and the process tested both the company and his family, which is deeply involved in the business. "I'm still working right alongside my wife Joye and my three sons," he says. "We are today's family farm."

The effort paid off, says Griffin. "Sales at those 25 stores had been in a double-digit dive prior to us taking them over. This year, sales are up 5.2 percent."

Numbers like that are not a surprise to anyone who knows Griffin. He has a track record as a successful business operator, both within and outside of franchising. Griffin, in concert with his family and employees, "who are just like adopted sons," makes things happen.

With his Colorado units back in the black, Griffin is looking for more opportunities. "We've bought out competitors, fellow Jiffy Lube operators,

NAME: David Griffin

TITLE: President

COMPANY: Griffin Fast Lube

NO. OF UNITS BY BRAND: 56

AGE: 56

FAMILY: Married 34 years to Joye, wife, business partner, and closest advisor, with three sons, three daughters-in-law, and three grandchildren

YEARS IN FRANCHISING: 14

YEARS IN CURRENT POSITION: 34

"I like to feel the pulse of the operation on the ground level."

PERSONAL

First job: Joye washed windows and pumped gas at her grandfather's gas station. I hauled chains from the front to the rear of my father's car wash. Joye and I detailed cars while sweethearts in college.

Formative influences/events: I spent my childhood on a farm, the son of a broke farmer. That bred certain attributes into me, living with little to nothing, not having things, being made fun of because I didn't have it. Clothes were hand-me-downs. I was the fifth child of six. I was in the 7th grade reading at a 3rd-grade level branded as attention-deficit, and there was a lady in the remedial reading course for people who couldn't read. She found I was a multi-level thinker and not attention-deficit. That was a real impressive moment. Ruth DeVries took me from the 3rd-grade level to the 8th-grade level in six months.

The next one would be learning how to work for my father. My dad had a car wash. Before going to work, I'd volunteer and drive tractors and equipment, planting and cultivating crops on 130 acres owned by our church, from early morning to 20 minutes to 8. Then I'd drive to my dad's place and did it again in the evening. It cut back on my play time but increased what I call service and work time, and I found great pleasure in working for others.

Then, when I married Joye 34 years ago. She's been telling me things about myself I never knew. She was the absolute making of me.

Key accomplishments: In 2007 we received the Operators of the Year Award from Jiffy Lube International. But for me, I'd have to say the greatest one came on our managers' retreat this past week. I had 51 managers there, and with passion and tears in our eyes the Griffin family got the Employer of the Year award from them. That's my biggest accomplishment.

Another thing we have done in the past 3 years is finished our large project of all stores re-imaged. We have added some new stores, but the bulk of our growth has come from in-store customer increase and sales. We have spent our time developing the talents and abilities of our leaders throughout the stores, districts, and company. Remember in our last interview we had just taken over 25 stores in Colorado. When we purchased them, those stores were in double-digit decline in sales and customers. We have been in double-digit increase every year since our takeover.

We have always been a company that would give throughout the years. But the last three years Joye has led us to a much more organized focus on raising funds for Make-A-Wish. This has added a heartfelt purpose to our company. The giving has lifted us all. Raising the funds to grant a wish for a child with a life-threatening condition has given us a true purpose—that is to feel the blessing of giving. We have seen the tender mercies of giving. In 2014 we will raise around $70,000 for the children.

Biggest mistake: Building a full-service car wash. I built a Taj Mahal and put too much money into that facility.

Smartest mistake: Building that car wash. It's twofold. The vision of building created the opportunity to introduce us to the fast lube franchise. We bought 12 stores in Northern Utah and that quickly opened other doors to buy other stores.

Work week: It changes from week to week. There are weeks when I will be looking at all items on the ground level in the three states. We travel two by two. We rarely travel one at a time. We maximize talents and abilities by going together.

How do you spend a typical day? I like to feel the pulse of the operation on the ground level. I review the stats from the previous day, week, and month. My vice president of operations is our youngest son, John. I will also spend time with Jeff, vice president over all inventories, vendors, fleets, and new acquisitions. And then I'll be reviewing things with D.J., our eldest son, who will be working primarily as our controller. And at some point I will talk with Joye. She's my wife and business partner and we will make sure that we're united on the things we want to do.

Favorite fun activities: I'm a farm kid. I grew up raising horses and I still have two. So I spend time saddling horses, also snow and water skiing. We play as hard as we work.

Exercise/workout: Skiing, riding my horses. I don't go to the gym.

Favorite tech toys: My favorite stuff is a harness for my horses. The tech tools I have, but they're just tools I have to accomplish what I need to do. I most like to spend one-on-one time with my grandchildren.

What are you reading? *Strengths Based Leadership: Great Leaders, Teams, and Why People Follow* by Tom Rath and Barry Conchie. We find our greatest value in our employees, and that's not just lip service. We train people on the business and bettering ourselves as individuals. Dan Griffiths of the Tanner group in Salt Lake City trained and taught our leadership for 3 days.

Do you have a favorite quote? I have a lot of quotes and advice. It depends on the situation. If someone is focusing on something, I'll say: "That which we persist in doing becomes easier for us to do; not that the nature of the thing itself is changed, but that our power to do is increased." (Ralph Waldo Emerson)

Best advice you ever got: At one point in our career in the chemical business I had another partner, and that partner's outlook was totally opposite of mine. I'm an optimist, but realistic. My glass is half full and his is half empty. I ramp up in the worst of times, he ramped down. My wife said, "You need to step back and decide to be yourself. Once you decide who you are, then you need to decide whether you need to be in that chemical business." I couldn't shed his outlook and the death spiral he was in, and that was affecting me. Her advice: Get out.

What gets you out of bed in the morning? My beliefs and my understanding of a greater purpose in life.

How do you balance life and work? We don't keep score on one side or the other. We're passionate in the business and the same with our personal lives. We spend time as a family together, working in the religious sector, serving other people in the community. But we're not keeping score. It's a well-woven rope all the way through.


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"I'm always firm. I'm always fair, and I'm friendly. You'll see managers hug me when I walk in."

and built new locations. We're looking for untapped markets in our Colorado, Utah, and Nevada territories and might even consider expanding into new states," he says.

"It's all about our people," says Griffin. "We are known for raising up strong leadership in our stores and that in turn builds strong stores."

Griffin, along with his wife Joye, was chosen as Jiffy Lube's 2010 Franchisee of the Year and is a staunch brand supporter. He's excited about some new brand initiatives being rolled out by

MANAGEMENT

Business philosophy: We grow during the economic downturns. During the fat years we are maturing inside the core, developing the leadership of our people, saving, and paying off debt. We have stores that are up 47 percent in customers. This is a great opportunity at a time competitors are hesitating or focusing on their own demise. Very few people can stand in a circle of fire and not feel the heat. Two years ago we bought Nevada. Last September we bought Colorado. This is from our company manual:

"Griffin Fast Lube believes in creating valuable services for customers and enjoyable work environments for employees. To do that, a set of values and information must be known and achieved by all employees. GFL does not create a comprehensive list of rules and regulations that will guide employees through every possible situation. Rather, it hires teachable individuals, with good core values. We build off those core values and teach them how to understand and evaluate situations, so that they can make correct decisions. This type of management stimulates innovation and allows management to be creative. These values and creativity show to our customers, which then builds excitement and loyalty."

Management method or style: Firm, fair, and friendly. In that order. I'm always firm. I'm always fair, and I'm friendly. You'll see managers hug me when I walk in. They'll say, "Mr. Griffin will communicate but not talk in a demeaning way to me." I'll never tear down the individual.

Greatest challenge: Right now it's keeping everybody from not letting the economic downturn affect them negatively. You have so much negativity coming out from what's written and what's viewed on TV. But I try teaching them how to look at that as an opportunity instead of a downfall. My father was in the 111th Airborne. He lived through the '29 crash, the 1941 bombing of Pearl Harbor, Hitler declaring war on the U.S. It was all turmoil. He taught me about an individual named Marie who was asked to make desserts when it was hard to make food. She was a single mother raising a child, and built a bakery in '48. In 1968 she had 26 restaurants, and today what, 182? She was Marie Callender. I bought a home when interest rates were at 18 percent, car sales were down, home sales were down, and homebuilders were going broke. In 2010 interest rates were low but car sales and home sales were down and homebuilders were going broke, car dealerships were going broke. And Griffin Fast Lube was able to double twice in two years. The opportunities don't float to the surface unless something difficult happens.

How do others describe you? They'd say I'm an individual with a lot of passion and discipline, somebody who has the ability to care for all of us beyond the employee at work and into their homes and families. They would say when he gets a goal in his mind he can work dog-tired under extreme circumstances. I work as a team, I don't run point. I'm not that type of manager. I'm side by side with my wife through all of this. That's why we get so much accomplished.

How close are you to operations? There is a Griffin in every store at least once a month.

What are the two most important things you rely on from your franchisor? Quality products and keeping the brand united.

Have you changed your marketing strategy in response to the economy? How? Yes. All-day everyday low prices and coupon discounts.

How do you hire and fire? All of our employees are clearly communicated with as to what the job position requires and their daily, weekly, and monthly responsibilities. Their managers clearly communicate as to what they're doing right or wrong, and their job is to teach them along the way how to get better. If you find someone resistant or negative or foul-mouthed, if they don't move on they won't be able to stay with us. We're firm, fair, and friendly. By the same token, we're very careful about who we hire. These aren't just bodies coming through the door.

How do you train and retain? We have a training program tied with Jiffy Lube's program. Everyone gets certified on the customer side and the procedure with the vehicle.

How do you deal with problem employees? Clear communication verbally and then written up. A key point: we follow back up with training in their area of default.


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"Thanks to my family. I look forward to many more years of success."

the franchisor and is eager to see what lies ahead.

One of the things Griffin says he has learned over the years is that "Opportunity almost always never comes at a convenient time. It's staying focused on the long term and the future that makes today's opportunities work out in the end."

Despite the challenges and the expense of turning around those stores and expanding his business in today's economy, it's easy to believe Griffin when he says, "I'm having more fun now than I've ever had." MUF

BOTTOM LINE

Annual revenue: North of $32 million.

Growth meter: How do you measure your growth? How many stores we've added and where's the targeted area for our next 2, 3, 4, 5 stores. Improving the footprint overall. Improving the talents and abilities of the management team. We're always evaluating the customer experience.

Vision meter: Where do you want to be in 5 years? 10 years? First and foremost, have all the stores reimaged with all buildings having the same new-age Jiffy Lube made clear. I want a better-trained employee working in a new and improved facility. Even if we do not get any opportunity to open other markets, we can still add 25 to 30 more locations.

How is the current economy affecting you, your employees, your customers? Our employees have been inspiring us as a corporate team and customers feel the inspiration as well. The stats verify that. We're one of four front-runners for Jiffy Lube International. We're climbing, and that filters down into our customers.

Are you experiencing economic growth in your market? I've seen a kind of a settling in the market. We've had a lot of car dealers close, and it's lifted us. But I don't think we're going to see any more major turnovers. People are starting to get their feet underneath them again.

What did you change or do differently during the economic downturn that you are continuing to do? We got more aggressive. When others duck their heads, we lift ours.

How do you forecast for your business? Forecasting becomes a little hard to determine if you look at it in broad geographic areas. When you drive around and identify a need in a county, then it becomes clear. Statewide, it's hard to apply it. You have to break it down into a county, get in a car, and go with your people. Then you can see what you need to do to lift your market.

Is capital getting easier to access? Why/why not? No. Aside from opportunities from Jiffy Lube and Shell, our internal cycle comes from savings and we don't even approach the bank on those items. If you wanted to acquire just the franchise and lease the facilities, very few banks right now, if any, would even consider that. The banking industry is not built to loan money on a straight franchise unit. You need dirt, brick, or mortar.

Where do you find capital for expansion? That comes as a result of developing trusting relationships with your franchisor and your suppliers. For the most part banking and loans are difficult or nonexistent. Your greatest opportunity is to have a trusting supplier and franchisor.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We have used some lightly.

What are you doing to take care of your employees? Our management team participates in profit-sharing from the locations they operate for us. We provide them with a clear understanding of the profit-and-loss statement.

How are you handling rising employee costs (payroll, healthcare, etc.)? We're paying for health insurance. At this point the biggest thing in a down economy is to lift the quality of our overall employment. There's a lot more unemployed and we can be a little more selective and we can upgrade, become a better performer. By hiring better we can improve our situation.

How do you reward/recognize top-performing employees? We evaluate key focal points for each manager and assistant manager and we do a lot of "attaboys" when we're out there. We make sure to recognize them in the leadership retreat.

What kind of exit strategy do you have in place? This business of ours is driven with a heart and soul of a family spirit. Joye and I have worked for three decades. With our sons D.J., Jeff, and John, their added leadership has allowed us the ability to keep growing. I hope with this we can shed light that this company is and has been a family success story. Growth in difficult times comes from a united family making difficult choices, staying still in rough storms of growth. Thanks to my family, I look forward to many more years of success.

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*The figures are the average clinic volume of all 2012 sales after two or more years of clinic operation. 315 clinics out of a total network of 656 clinics met or exceeded this amount in 2012. A new franchisee's results may differ from the represented performance. Past performance is not a forecast of a prospective franchisee's future financial performance. A franchise offer can be made only by an FDD. See Item 19 of the current Massage Envy FDD for further clarification of these metrics.

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- Kent Swarts,
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* Figure reflects average net sales information for fiscal year 2012 financial performance of 32 company-owned traditional restaurants and 254 franchised traditional restaurants that were in operation continuously during 2012. This average net sales information is published in our Franchise Disclosure Document and you should review that document for all the details on this figure. There are no assurances that you will do as well.

BY KERRY PIPES

But Wait, There's More!

Three brands, four states, and plans to expand

Grant Simon is a textbook example of a multi-unit franchisee who can't sit still.

When we profiled Simon in 2008 (Q3), he was operating 18 Great Clips salons in the Atlanta area. He was doing well but had an itch for more, and had just teamed up with fellow area Great Clips franchisee Greg Thomas (profiled in 2011, Q3) to purchase a car wash business.

"It looked like a good opportunity, so we did it," says Simon. "We turned it around and quickly sold it for a healthy profit." It was an omen of good things to come. The two entrepreneurs invested their proceeds in Great Clips salons outside their Atlanta market and the growing began. Since the end of 2008, Simon has opened 21 more Great Clips salons in Georgia, Florida, and Alabama through new builds and acquisitions, bringing his total to 39.

He didn't stop there, adding Smoothie King to his portfolio of brands. He and Thomas bought a distressed Smoothie King in Atlanta, turned it around, and sold it. "That strategy

NAME: Grant Simon

TITLE: CEO

COMPANY: LSGF Management

NO. OF UNITS BY BRAND: 39 Great Clips, 20 T-Mobile, 1 Smoothie King

AGE: 49

FAMILY: Sophie 14, Rebecca 19

YEARS IN FRANCHISING: 20

YEARS IN CURRENT POSITION: 20

PERSONAL

First job: Dishwasher at Beef & Burgundy Restaurant. I was paid in cash because I was too young to legally work. I would walk home after work at 1:00 a.m. I can't believe my parents let me do that.

Formative influences/events: My father always worked for himself and has excellent business acumen. He taught me how to negotiate, how to manage, and how to take chances while controlling risk. My mother taught me about integrity, honesty, and tolerance.

Key accomplishments: Raising two great kids.

Biggest mistake: I kept my original general manager a little longer than I should have. I accepted mediocrity and problems longer than I should have. When she did leave it really rejuvenated the company and gave a fresh start to everything. It was a better place for all of us to work.

Smartest mistake: The second Great Clips location I purchased was to relocate the business. But after I got in there and really evaluated it and talked to the people, we decided to keep it there and it became very successful.

Decision I wish I could do over: When I look back, I always wish I had done more sooner.

Work week: Demands on my time change dramatically depending on what is going on with the business. I usually work six days a week. I try to work in quality time with my family and friends. I love what I do, so it does not seem like work to me.

How do you spend a typical day? There is no typical day and that suits me just fine. As a multi-unit franchisee, I spend my day multi-tasking. After catching up on emails in my home office, I head to the corporate office where I review store metrics and meet with staff and vendors and focus on operations, financials, construction, and real estate matters. I like to do store visits whenever I can.

Favorite fun activities: Traveling, hiking, scuba diving, photography, skiing, and watersports.

Exercise/workout: I work out regularly at the gym and enjoy a variety of sports including running, cycling, tennis, and racquetball.

Favorite tech toys: Anything that T-Mobile carries.

What are you reading? My girlfriend's novel.

Do you have a favorite quote? "You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future. You have to trust in something—your gut, destiny, life, karma, whatever." (Steve Jobs)

Best advice you ever got: Don't live above your means.

What gets you out of bed in the morning? I don't sleep much. I'm always excited about whatever I am working on.

What's your passion in business? I am passionate about doing deals. Also helping others around me grow and succeed.

How do you balance life and work? I work hard and play hard. My home, my office, my gym, and my daughter's school are all within 5 miles of each other.

Last vacation: Puerto Rico with my brother and father to celebrate his 75th birthday.

Person I'd most like to have lunch with: My mother. And I do, once a month.

MANAGEMENT

Business philosophy: Long-term cash flow almost always trumps profits from a sale. I prefer to open and acquire businesses to operate long-term. Always be prepared for tough times by keeping operations lean and debt to a bare minimum. Never do a deal that you have to stretch yourself too much for or that just doesn't feel right.

Management method or style: Focusing on what I do best. Hire people better than myself for the rest.

Greatest challenge: Building a strong infrastructure to handle our growth.

How do others describe you? Optimistic, focused, detail-oriented.

One thing I'm looking to do better: Just one? I am always looking to do better in everything I do. Currently working on improving IT and loss prevention.

How I give my team room to innovate and experiment: I am loyal to the people who helped me grow the business, and I don't micro-manage them. If they want to try something new, I'll help them think it through, make sure they have the resources they need, and then I get out of the way.

How close are you to operations? Pretty close. I have a chief operations officer for each of my brands. They are excellent at what they do and we are in daily contact.

What are the two most important things you rely on from your franchisor? Marketing and employee training.

What you need from vendors: This is really controlled by our franchise brands, and they do a great job. They screen and evaluate, and the contracts and pricing are always well-executed.

How do you hire and fire? I like to hire driven people who have career ambitions. Once I determine someone needs to go, I do it quickly.

How do you train and retain? Again, all of my brands provide great training tools and we make sure to always train up to those standards. We make sure all our people are well-trained, and we always reinforce that training.

How do you deal with problem employees? We have a structured corrective process that will either lead to their improvement or termination.

Fastest way into my doghouse: Not doing what you told me you were going to do.


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worked so well for us that we did it two more times," says Simon. Today, the partners operate a single, money-generating Smoothie King and are looking to expand.

But wait, there's more for the busy entrepreneur. He's also become involved with T-Mobile. Although T-Mobile is not technically a franchise brand, he says it operates much like one and fits into his portfolio perfectly. After opening 11 T-Mobile stores in Atlanta, Simon recently merged with fellow T-Mobile Premium Retailer Lou Provost. "We now have 20 stores in Georgia, Tennessee, and Alabama with plans to expand into Florida in 2014," he says.

The Simon and Thomas partnership has gone so well that the partners formed LSGF Management in 2012 to house all their franchise brands and other businesses. "Forming this company just made it easier for us to manage and oversee all the things we were involved in," he says. "Greg and I share the same entrepreneurial sprit and values, but our skills and strengths are different and complement each other, allowing each of us to focus on what we do best, and the company benefits."

> **"I love what I am doing and have no plans to exit in the foreseeable future."**

For now, Simon is busy overseeing three brands with 60 locations in four states and says there's more growth on the way. He just celebrated his 20th year with Great Clips and is looking to open more salons. The right Smoothie King location also is a good target for expansion, and he plans to open 15 more T-Mobile locations in 2014.

"I've been in growth mode for the last 5 years," he says. Don't look for that to change any time soon. MUF

BOTTOM LINE

Annual revenue: $19 million.

2014 goals: Continued growth through new stores and acquisitions. I hope to have at least 15 new T-Mobile stores by the end of 2014. That will put us at 35 units. I also plan to open at least four new Great Clips and look for more acquisitions through resale opportunities.

Growth meter: How do you measure your growth? I don't just look at number of units or revenue. Same-store profitability growth is my most important growth meter.

Vision meter: Where do you want to be in 5 years? 10 years? I will definitely continue to grow. The brands I am in all have great potential for future expansion. I could see 100 units in 5 years and 200 units in 10 years. I also plan to spend more of my time in charitable activities.

How is the current economy affecting you, your employees, your customers? Our employee base has been more stable the last 5 years. Great Clips and T-Mobile are great national brands with great value propositions for customers in these economic times. We have continued to grow same-store sales despite the economy. At the same time, we have seen some of our direct competitors retract, giving us more employees and customers.

Are you experiencing economic growth in your market? Most of our new unit growth is reliant on shopping center construction. We are just starting to see some new opportunities in all the markets we are in.

What did you change or do differently during the economic downturn that you are continuing to do? Great Clips is really a value-based brand, so even when the economy caused people to increase their haircut cycle time, we were able to pull in customers who were seeking more cost-effective hair care solutions. So in a sense, the economy over the past few years actually helped us some. Now that things have turned around, we've kept those new customers who found out what a great product we had to offer them.

How do you forecast for your business? That's a broad question. We are teamed up with strong brands that have strong management in place. Because of that, our growth and expansion efforts are made easier because we have such great brands with great reputations and products.

Is capital getting easier to access? Why/why not? Don't really have to deal with that.

Where do you find capital for expansion? I don't like debt. I have grown mostly through cash flow, and a couple of our acquisitions are done with some seller financing.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Rarely. I don't like covenants.

What are you doing to take care of your employees? It varies a little depending on business. In general, we offer a full array of benefits including vacation, holiday pay, and insurance. We also have contests, incentive trips, bonus, commission, growth opportunities, and a very caring and nurturing culture.

How are you handling rising employee costs (payroll, healthcare, etc.)? We have looked at all of our expenses and cut from nonessential areas. Raising prices has not really been an option the last few years.

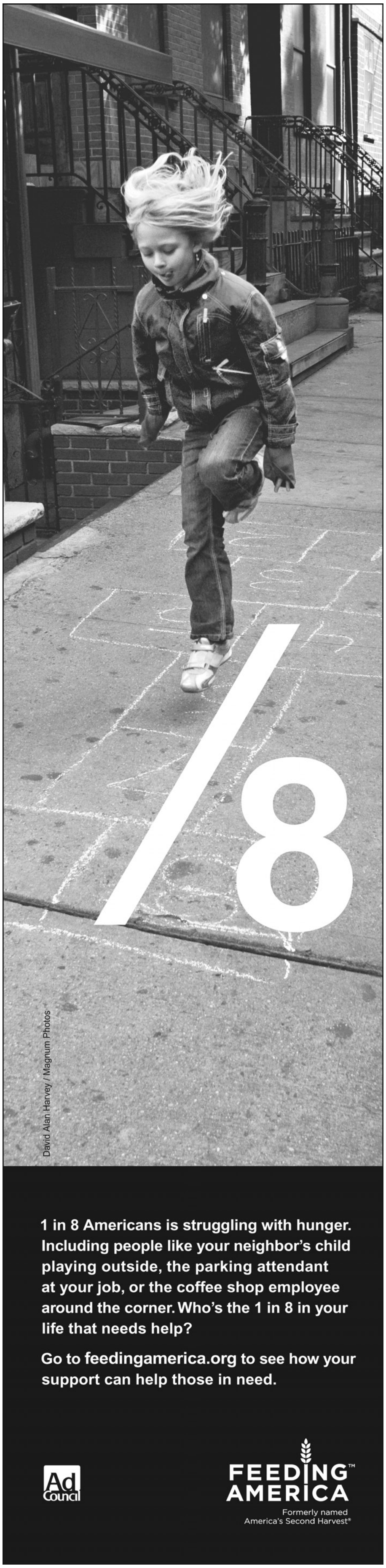
How do you reward/recognize top-performing employees? We recognize outstanding employees and stores in both daily emails and weekly newsletters. We reward them with lunches, dinners, contests, events, and trips. Recognition helps motivate and retain our top performers.

What kind of exit strategy do you have in place? I love what I am doing and have no plans to exit in the foreseeable future.

2014 Mega 99 Rankings

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

	NAME	UNITS	BRANDS
1	NPC International	1,230	Pizza Hut/Taco Bell, Pizza Hut, KFC
2	Target Corp.	1,167	Cold Stone Creamery, Pizza Hut, Jamba Juice
3	Carrols Group	572	Burger King
4	Heartland Automotive Services	540	Jiffy Lube
5	Flynn Restaurant Group	511	Applebee's, Pizza Hut, Taco Bell
6	Aramark	473	Pizza Hut/Taco Bell, Cold Stone Creamery, Blimpie, Qdoba Mexican Grill, Seattle's Best Coffee, Jack in the Box, Which Wich, Pizza Hut, IHOP, Jamba Juice, Dunkin' Donuts, Wendy's, Moe's Southwest Grill, Quiznos, Chick-fil-A, Cosi, Einstein Bros. Bagels, Freshii, KFC, Pinkberry, Subway, Tim Hortons, Chili's/Chili's Grill & Bar/Chili's Too, Denny's, McAlister's Deli, Noble Roman's Pizza, Round Table Pizza, Sbarro, The Extreme Pita, Togo's, Ben & Jerry's Scoop Shop, Panda Express, Salad Creations, Raising Cane's Chicken Fingers, Beef 'O' Brady's Family Sports Pub, Papa John's Pizza, Mooyah Burgers & Fries
7	HMSHost Corp.	470	The Great American Bagel, Dunn Bros Coffee, Great Steak & Potato Company, Kelly's Cajun Grill, Ranch*1, Tony Roma's Pizza, Cold Stone Creamery, Blimpie, MNG by Mango, Dickey's Barbecue Pit, Qdoba Mexican Grill, Famous Famiglia, Sonny Bryan's Smokehouse, TCBY, T.G.I. Friday's, Pizza Hut, Cinnabon, Häagen-Dazs, Popeyes Louisiana Kitchen, Moe's Southwest Grill, Quiznos, Baja Fresh, Burger King, Chick-fil-A, Einstein Bros. Bagels, Gordon Biersch Brewery, KFC, Pinkberry, Salsarita's, Subway, Chili's/Chili's Grill & Bar/Chili's Too, Sbarro, Smashburger, Villa Pizza, Krispy Kreme Doughnuts, La Salsa, Yeung's Lotus Express, Godfather's Pizza, Nathan's Famous, Johnny Rockets
8	Army & Air Force Exchange Services	425	Blimpie, Arby's, Charley's Grilled Subs, Popeyes Louisiana Kitchen, Pizza Hut, Cinnabon, Burger King, Einstein Bros. Bagels, Subway, Captain D's, Church's Chicken, Taco John's, Wing Zone, Godfather's Pizza
9	Heartland Food Corp.	404	Burger King
10	Harman Management Corp.	403	Pizza Hut, KFC, KFC/A&W, KFC/Pizza Hut, KFC/Taco Bell, LJS/KFC, LJS/A&W, Long John Silver's
11	Sun Holdings	398	Burger King, Popeyes Louisiana Kitchen, Arby's, CiCi's Pizza, Golden Corral, T-Mobile, Del Taco
12	Rottinghaus Company	368	Subway
13	Sodexo	353	Pizza Hut/Taco Bell, Hot Stuff Foods, NrGize Lifestyle Cafe, Blimpie, Seattle's Best Coffee, Pizza Hut, Jamba Juice, Quiznos, Baja Fresh, Burger King, Chester's, Chick-fil-A, Einstein Bros. Bagels, Subway, Tim Hortons, A&W, Carl's Jr., Denny's, LJS/A&W, McAlister's Deli, Wow Cafe & Wingery, Godfather's Pizza, Papa John's Pizza, Nathan's Famous
14	Pilot Travel Centers	325	Hot Stuff Foods, Arby's, Dairy Queen/DQ, Pizza Hut, Cinnabon, Wendy's, Carvel, Moe's Southwest Grill, KFC, Subway, Huddle House
15	Tacala/Boom Foods	303	Sonic Drive-In, Pizza Hut, Taco Bell, KFC/Taco Bell
16	Boddie-Noell Enterprises	299	Hardee's
17	Strategic Restaurants Acquisition Corp.	292	Burger King
18	ADF Companies	287	Pizza Hut/Taco Bell, Pizza Hut
19	Bridgeman Foods	287	Wendy's, Chili's/Chili's Grill & Bar/Chili's Too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2014 Mega Rankings, *continued*

	NAME	UNITS	BRANDS
20	KBP Foods	281	KFC, Taco Bell, Long John Silver's
21	United States Beef Corp.	277	Arby's
22	WilcoHess	274	Arby's, Dunkin' Donuts, Wendy's, Subway, Godfather's Pizza
23	Mason Harrison Ratliff Enterprises	268	Sonic Drive-In
24	Richard Lawlor	265	Dunkin' Donuts
25	JIB Management	258	Blimpie, Jack in the Box, Super 8, Hampton Inns, Quality Inn/Quality Suites, Hotel, or Resort, Denny's
26	Hess Corp.	257	Quiznos, Burger King, Godfather's Pizza
27	K-Mac Enterprises	253	Taco Bell, KFC, KFC/Taco Bell, LJS/KFC
28	Love's Travel Stops & Country Stores	245	Arby's, Chester's, Subway, Godfather's Pizza
29	Fugate Enterprises	242	Pizza Hut, Taco Bell
30	Southern California Pizza	223	Pizza Hut
31	MUY Brands	219	Pizza Hut, Taco Bell, KFC, KFC/Taco Bell, LJS/KFC, Long John Silver's
32	D L Rogers Corp.	212	Sonic Drive-In
33	The Covelli Family Limited Partnership	209	Panera Bread
34	MHR Sonic of Phoenix	205	Sonic Drive-In
35	Quality Dining	179	Burger King, Chili's/Chili's Grill & Bar/Chili's Too
36	Kmart Corp.	177	Little Caesars Pizza
37	Border Foods	175	Pizza Hut/Taco Bell, Pizza Hut, Taco Bell, KFC/Pizza Hut, KFC/Taco Bell, Church's Chicken
38	The Pantry	173	Hot Stuff Foods, Mr. Payroll, Dairy Queen/DQ, Quiznos, Chester's, Subway, Church's Chicken, Noble Roman's Pizza
39	Sizzling Platter	170	Little Caesars Pizza, Sizzler
40	TA Operating	166	Pizza Hut/Taco Bell, Popeyes Louisiana Kitchen, Pizza Hut, Knights Inn, Burger King, Rodeway Inn, Subway, Tim Hortons
41	Wing Financial Services	165	Jackson Hewitt Tax Service
42	Compass Group USA	160	Au Bon Pain, Blimpie, Uno Due Go, Pizza Hut, Häagen-Dazs, Jamba Juice, Wendy's, Moe's Southwest Grill, Quiznos, Bojangles', Burger King, Subway, Tim Hortons, Denny's, Sbarro, Panda Express, Papa John's Pizza, Nathan's Famous
43	BR Associates/Sidal	158	Wendy's, Denny's, Long John Silver's
44	JRN	157	Pizza Hut, KFC
45	B & B Consultants	154	Sonic Drive-In
46	Davco Restaurants	153	Wendy's
47	James Gressett	152	Pizza Hut

2014 Mega Rankings, *continued*

	NAME	UNITS	BRANDS
48	Cedar Enterprises	150	Wendy's, Burger King
49	Interfoods of America (Sailormen)	147	Popeyes Louisiana Kitchen, Burger King
50	Restaurant Management Company of Wichita	144	Pizza Hut, Long John Silver's
51	Charter Foods	140	Pizza Hut/Taco Bell, Pizza Hut, Taco Bell, LJS/A&W, Long John Silver's, LJS/Taco Bell
52	Palo Alto	137	Pizza Hut/Taco Bell, Pizza Hut, Taco Bell, KFC
53	Boyett Petroleum	137	Pacific Pride Services
54	RLJ Lodging Trust	137	Doubletree Hotels/Doubletree Guest Suites, Courtyard by Marriott, Fairfield Inn/Inn & Suites, Marriott Hotel, Renaissance Hotels & Resorts, Residence Inn by Marriott, Springhill Suites, Embassy Suites Hotels, Hampton Inns, Hilton Garden Inn, Holiday Inn, Homewood Suites by Hilton, Hyatt House (Hyatt Summerfield Suites), Hilton/Hilton Suites
55	Celebration Restaurant Group/CFL Pizza/Bravo Foods	135	Pizza Hut, Taco Bell
56	RPM Pizza	135	Domino's Pizza
57	Carlisle Corp.	133	Wendy's
58	PJ United	133	Papa John's Pizza
59	Falcon Holdings	132	Church's Chicken
60	Fourteen Foods	131	Dairy Queen/DQ
61	Valenti Management	129	Wendy's, Chili's/Chili's Grill & Bar/Chili's Too
62	America's Pizza Co	128	Pizza Hut
63	Tri Star Energy	127	Pacific Pride Services
64	Jerry Miller	126	Pizza Hut
65	Henley Enterprises	125	Valvoline Instant Oil Change
66	Gary Jarrard	122	Sonic Drive-In
67	Wisconsin Hospitality Group	121	Applebee's, Pizza Hut
68	Rage	121	Pizza Hut
69	Apex Restaurant Management	120	KFC, KFC/Taco Bell, Long John Silver's
70	Apple Gold	119	Applebee's
71	JEM Restaurant Group	119	Pizza Hut/Taco Bell, Pizza Hut, Taco Bell
72	Briad Restaurant Group	115	T.G.I. Friday's, Wendy's
73	Neighborhood Restaurant Partners	115	Applebee's
74	The Scrivanos Group	115	Dunkin' Donuts, Dunkin' Donuts/Baskin-Robbins combo
75	Summit Restaurant Group	114	Pizza Hut

2014 Mega Rankings, *continued*

	NAME	UNITS	BRANDS
76	RE/MAX Preferred	114	RE/MAX
77	Extended Access	112	Pacific Pride Services
78	Western Reserve Restaurant Management	112	Wendy's
79	V & J Holding Companies	111	The Coffee Beanery, Pizza Hut, Auntie Anne's, Burger King
80	Mark Cafua	110	Dunkin' Donuts, Dunkin' Donuts/Baskin-Robbins combo
81	Randolph S Katz	109	Midas
82	Hess Mart	107	Blimpie
83	Luihn Food Systems	106	Pizza Hut, Taco Bell, KFC, KFC/A&W, KFC/Pizza Hut, KFC/Taco Bell, LJS/KFC
84	Pepper Dining	105	Chili's/Chili's Grill & Bar/Chili's Too
85	W2007 Equity Inns Realty	104	Courtyard by Marriott, Fairfield Inn/Inn & Suites, Residence Inn by Marriott, Springhill Suites, Towneplace Suites by Marriott, Embassy Suites Hotels, Hampton Inns, Holiday Inn, Homewood Suites by Hilton, Hyatt Place
86	Daland Corp.	103	Pizza Hut
87	CK Ventures	103	Jackson Hewitt Tax Service
88	Northeast Foods	101	Burger King
89	Brij Agrawal	100	Subway
90	SEI/Aaron's	100	Aaron's Sales & Lease Ownership/Aaron Rental
91	Marchelle Stewart	99	KFC
92	BurgerBusters	98	Pizza Hut/Taco Bell, Pizza Hut, Taco Bell
93	Bajco	96	Papa John's Pizza
94	Magic Burgers	96	Burger King
95	Goldco	95	Burger King
96	MC	95	Jiffy Lube
97	Great Lakes Quick Lube	95	Valvoline Instant Oil Change
98	Paradigm Investment Group	94	Hardee's
99	William B Graves	94	Domino's Pizza

Source: FRANdata

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MULTI-UNIT FRANCHISEE LUNCHEON

GRAND LUNCHEON WITH FRANCHISORS

EXHIBITORS

FRANCHISORS
Aaron's
Andy's Frozen Custard
Arby's Restaurant Group
Bojangles' Restaurants, Inc.
Boneheads
Boston's Restaurant & Sports Bar
Brick House Tavern + Tap
Brixx Wood Fired Pizza
Broken Yolk Café
Buffalo Wings & Rings
Burger 21
Capriotti's Sandwich Shop, Inc
Captain D's
Checkers & Rally's Restaurants
Chronic Tacos™
Church's Chicken
CiCi's Pizza
CKE Restaurants Holdings, Inc.
Colors on Parade
Costa Vida Fresh Mexican Grill
Cups Frozen Yogurt
Dairy Queen Corporation
Del Taco
Denny's, Inc.
Dessange International Inc., franchisor for Dessange Paris, Camille Albane Paris & Fantastic Sams Hair Salons
Domino's Pizza
Dunkin' Brands
East Coast Wings & Grill
Einstein Bros. Bagels
Fazoli's
Firehouse Subs
First Watch - The Daytime Cafe
Forever Yogurt
Fresh To Order (f20)
Fuddruckers
Godfather's Pizza, Inc.
Golden Corral Buffet & Grill
Grease Monkey International
HoneyBaked Ham and Café
Hooters of America, LLC
How Do You Roll?
Huddle House Inc.
Hungry Howie's Pizza
Hurricane Grill & Wings
IceBorn, a franchise of Ice House America
Interstate All Battery Centers
Jack in the Box®
Jake's Wayback Burgers
Jersey Mike's Subs
Krispy Kreme
la Madeleine
Mama Fu's Asian House
Massage Heights Corporate, LLC
McAlister's Deli
Meineke Car Care Centers, Inc.
MOOYAH Burgers, Fries, and Shakes
Muscle Maker Franchising, LLC
Newk's Eatery
Old Chicago Pizza & Taproom
Pancheros Mexican Grill
PET SUPPLIES PLUS
Pie Five Pizza Co.
Pita Pit USA
Popeyes Louisiana Kitchen
Project Pie
Quaker Steak & Lube
Rent-A-Center
Retro Fitness
Roy Rogers
Salsarita's Fresh Cantina
Sears Hometown & Outlet Stores
Smoothie King
Snip-Its Haircuts for Kids
SONIC Drive-in
Sport Clips
Steak 'n Shake
sweetFrog Premium Frozen Yogurt
Taco Johns
The Brass Tap
The Greene Turtle Sports Bar and Grille
Tide Dry Cleaners
Togo's
Toppers Pizza
Tropical Smoothie Café
Watermill Express
Which Wich
Wok Box
Yeh! Frozen Yogurt & Cafe
Zaxby's Franchising, Inc.
ZIPS

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Clarity Voice
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Envysion
franchiseIQ
FRANdata
Global Cash Card
Harland Clarke - TranSource
Hireology
Impression TV
Infiniti HR
International Franchise Association
LED Source - Your LED Lighting Experts
National Satellite - DIRECTV for Business
NEST International
OrderUp
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Retail Data Systems
SurePayroll, Inc.
The Rawls Group - Business Succession Planning
Total-Apps
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*At Press Time

PLANNING FOR GROWTH 2014

YOUR PATHWAYS TO SUCCESS

AZIZ HASHIM
2014 Conference Chairman

President & CEO of National Restaurant Development and this year's Conference Chair, has become a leading multi-state, multi-brand, and most recently, multinational business owner.

Fellow franchisees, I wish you all a happy New Year with much success in your endeavors in 2014. I am very excited to announce that this year's conference is entitled "Planning for Growth." With the economy slowly but surely rebounding, and capital access at its best point since pre-recession, there will be opportunities abound for franchisees to make measurable strides in their business. However, the best growth is intelligent growth and that comes with proper planning, measurable objectives and disciplined decision making.

This year's conference will feature the major aspects of successful growth through the lens of finance, marketing and talent management. We are planning sessions with content that is new and fresh with operators who have mastered these key areas of business. Further, we have introduced tracks so that the content is tailored to the specific needs of the operator in various stages of development.

The Multi-Unit Franchising Conference is a unique event because it is highly influenced by its advisory board consisting of the very best multi-unit franchisees. The board works very hard to ensure that the conference delivers on its promise of being the best venue for franchisees to learn how to grow their business.

I look forward to seeing you at the conference this year, it will be a not-to-miss event for all multi-unit franchisees!

TOP 3 REASONS TO ATTEND

#1 – Franchisee Networking

Engage with franchisees from a variety of industries, discover new ideas, best practices, and develop relationships from business owners facing the same challenges.

#2 – Education and Motivation

Over 60 multi-unit and multi-concept franchisee speakers will share their tactics, insights, and practical advice in 30 solution-focused sessions. Topics include:

- Selecting and Adding New Brands
- Consumer Marketing
- Customer Service
- Recruiting, Retaining, and Rewarding Employees
- Financing
- Benchmarking Unit Performance
- Healthcare and Government Regulations

#3 – New Opportunities

Over 250 franchises and business solution providers looking to partner with successful multi-unit operators just like you will fill the expo hall. Find the next great brand to add to your portfolio. Discover a service provider that can boost your bottom line.

WHO SHOULD ATTEND

There's something for everyone at this conference. Whether you are a franchisee, franchisor or supplier.

- Multi-Unit Franchisees
- Multi-Concept Franchisees
- Area Developers and Area Representatives
- Chain Store Operators
- Franchisors
- Franchise Investors
- Real Estate Professionals
- Finance Professionals

The 2013 Multi-Unit Franchising Conference had record attendance of over 1,200 multi-unit franchisees, franchisors and franchise service providers.

Over 450 of the multi-unit franchisees attending in 2013 represented:

- 47 U.S. States and Canada
- 9,400 operating units
- 180,000+ employees
- $7.5 billion in annual systemwide revenue
- 200+ brands including the following categories: food (QSR, sit-down, fast-casual, yogurt, donuts, etc.), automotive, senior care, insurance, fitness, health, retail and more…
- 38% have 2 or more brands
- 47% operate in 2 or more states encompassing more than 40 U.S. States and Canada
- 70% are seeking additional brands
- 50 companies came seeking specific brands

AGENDA
AT A GLANCE

TUESDAY, April 22 | *Pre-Conference*	
12:00PM TO 6:30PM	**GOLF TOURNAMENT**
6:30PM TO 8:00PM	**MULTI-UNIT FRANCHISEE COCKTAIL RECEPTION & WELCOME** *(Franchisees Only)*
WEDNESDAY, April 23 | *Main Conference*	
7:30AM TO 7:30PM	**REGISTRATION DESK OPEN**
7:45AM TO 8:45AM	**CONTINENTAL BREAKFAST**
9:00AM TO 11:00AM	**OPENING GENERAL SESSION** **Welcome:** Therese Thilgen, *CEO & Co-Founder,* Franchise Update Media & Aziz Hashim, 2014 Multi-Unit Conference Chair, *President & CEO,* NDR Holdings, LLC **Keynote:** **John Maxwell,** *The Leadership Authority, Coach and Best-selling Author*
11:00AM TO 11:30AM	**COFFEE BREAK**
11:30AM TO 12:30PM	**GENERAL SESSION:** People Planning for Growth: Attract, Recruit, Retain
12:30PM TO 2:00PM	**MULTI-UNIT FRANCHISEE ONLY LUNCHEON** – Outsourcing Discussion
12:30PM TO 2:00PM	**GRAND LUNCHEON FOR FRANCHISORS & SUPPLIERS**

	GROWING TO 20 UNITS	GROWING FROM 20 – 30 UNITS	GROWING BEYOND 50 UNITS
2:00PM TO 3:15PM	Moving from Grandma's Pocketbook to Lender Financing	Management to Leadership	The Right Capital Plans for Growth
3:30PM TO 4:45PM	Making the Commitment to Grow	Executing The Vision	People, The Essential Element for Growth

3:15PM TO 4:30PM	**COCKTAIL RECEPTION IN EXPO HALL – EXHIBITS OPEN**
THURSDAY, April 24 | *Main Conference*	
7:30AM TO 7:30PM	**REGISTRATION DESK OPEN**
8:00AM	**CONTINENTAL BREAKFAST**
8:30AM TO 9:15PM	**BUSINESS SOLUTION ROUNDTABLES**

AGENDA AT A GLANCE

THURSDAY, April 24 | *Main Conference*

9:30AM TO 11:15AM	**GENERAL SESSION:** **Opening Remarks:** Aziz Hashim, 2014 Multi-Unit Conference Chair **State of the Franchise Industry:** Darrell Johnson, *Franchise Economist & CEO*, Frandata **Keynote:** **J.B. Bernstein,** *Legendary Sports Agent*, Marketing Pioneer & inspiration for the upcoming Disney film, Million Dollar Arm Multi-Unit Franchisee 2014 MVP AWARDS & RECOGNITION
11:30AM TO 11:45AM	**BREAK**
11:45AM TO 12:15PM	**GENERAL SESSION: Lobbying for Small Business & Franchisees**
12:15AM TO 1:45PM	**LUNCH IN EXHIBIT HALL**
2:00PM TO 3:00PM	**GENERAL SESSION: Healthcare Update – Healthcare 2014:** Clarifying Misconceptions & the Latest on the ACA
3:15PM TO 4:00PM	**CONCURRENT BUSINESS SESSIONS:**

Marketing Track	Financing & Operations Track	Relationships Track	Growth Track
Marketing Math	Secure Financing for Growth, Large Investments, Acquisitions, and Valuations	Understanding Your FDD & Franchise Agreement	Real Estate: Own It, Lease It, Manage It

4:15PM TO 5:00PM	**CONCURRENT BREAKOUT SESSIONS:**

Marketing Track	Financing & Operations Track	Relationships Track	Growth Track
Own Your Market For Optimal Local Store Marketing	Early Growth Capital for Emerging Franchisees	Exit Strategies & Succession Planning – includes selling units to plan for growth	Outsourcing: Why, What, When & How to Implement Workshop

5:00PM TO 7:00PM	**COCKTAIL RECEPTION IN EXPO HALL – EXHIBITS OPEN**

FRIDAY, April 25 | *Main Conference*

9:00AM TO 11:00AM	**CLOSING SESSION:** **Develop Your Capital Growth Plan Workshop,** *For Franchisees and Franchisors*

KEYNOTE SPEAKERS

Dr. John C.Maxwell

The Leadership Authority, Coach and Best-selling Author

John C. Maxwell is an internationally renowned leadership expert, coach, and author with more than 22 million books sold. Dr. Maxwell founded The John Maxwell Company and EQUIP, organizations that have trained more than 5 million leaders in 185 countries. Every year he speaks to Fortune 500 and 100 companies, international government leaders, and organizations such as the United States Military Academy at West Point, the NFL, and the United Nations. A *New York Times, Wall Street Journal,* and *Business Week* best-selling author, Maxwell's *The 21 Irrefutable Laws of Leadership* has sold more than 2 million copies. *Developing the Leader Within You* and *The 21 Indispensable Qualities of a Leader* have each sold more than 1 million copies. You can follow him on Twitter @JohnCMaxwell and read his blog at JohnMaxwell.com

J.B. Bernstein

Legendary Sports Agent & Marketing Pioneer

As a 25+ year veteran of the consumer goods and sports marketing industries, J.B. Bernstein knows what it takes to receive positive results. As the previous CMO of Seven Figures Management, Bernstein was the sports marketing mastermind behind The Million Dollar Arm contest. This revolutionary reality TV show for baseball players in India yielded the first two Indian-born men to ever sign pro sports contracts in the United States. Bernstein's story is now the subject of a Disney motion picture that will be released in May 2014 and he will be portrayed by actor Jon Hamm, of Mad Men fame.

Currently, Bernstein is the Co-founder and President of the Access Group of Miami. He has represented some of the greatest athletes of all time, developed over 250 products and is widely known as one of the godfathers of milestone marketing for his work on Wayne Gretzky's 802nd goal program.

ADVISORY BOARD

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National Restaurant Development

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President, Money Mailer Response Marketing

Greg Cutchall
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Owner, Rhode Rockets Inc.,
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CEO, Pizzerias, LLC / Mongoleria

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President & CEO, Texas Subs, DFW
Tanning, Benchmark Burgers

Anil Yadav
President, JIB Management Inc.

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Berner, Russ
VP of Restaurant Operations,
Quaker Steak & Lube

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President, JLC Dunkin' Donuts

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Franchisee Lawyer, Dady & Gardner

Davey, Don
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Dexter, Josh
Owner, Dunn Bros. Coffee

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CEO, Firehouse Subs of America

Goldman, Yaron
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President, Grimaud Enterprises Inc.

Grimaud, Maureen
Principal, Grimaud Enterprises Inc

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Johnson, Darrell
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Lutfi, Tony
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Miller, Keith
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Spongberg, Roland
President & CEO, WKS
Restaurant Corporation

Starke, Steve
Owner, JABEZ - Sears
Hometown & Outlet Store

Torres, Ted
President, Caerus Hospitality Partners

Franchisee ONLY Events

Poolside Franchisee Mixer

Tuesday, April 22nd
6:30PM-8PM

Grab a cocktail and mingle with your multi-unit franchising peers.

This year's chair Aziz Hashim, President and CEO of National Restaurant Development, along with our advisory board of multi-unit franchisees invites attending franchisees to join them for an evening of peer-to-peer networking and cocktails. This exclusive franchisee mixer event is the perfect way to jumpstart your conference experience along the lovely poolside backdrop at Caesars Palace.

Networking Luncheon

Wednesday, April 23rd
12:30PM-2PM

Network and share ideas with other multi-unit franchisees during our franchisee-only luncheon. Where else can you engage with franchisees from a variety of industries? Discover new ideas, best practices and develop relationships from business owners facing the same challenges. This year's chair Aziz Hashim, will be leading a discussion on the pros and cons of outsourcing, how it can benefit your business, as well as when, how and where to outsource. Seating will be open or available by industry. Details available when you register.

Multi-Unit Franchisee 2014 MVP AWARDS

Multi-Unit Franchisee Magazine is proud to once again honor franchisee excellence with our annual Most Valuable Performer (MVP) Awards. We are looking for the best and the brightest franchisees - the power operators, the innovators, the creative thinkers who have demonstrated outstanding performance in growing both their organizations and their brands.

MVP Award winners will receive VIP passes to the 13th annual Multi-Unit Franchising Conference in Las Vegas on April 23-25, 2014, where they will be treated like franchisee royalty and recognized on stage during the general session. In addition, they will also receive an exclusive profile in Multi-Unit Franchisee Magazine, a feature on mufranchisee.com, and an impressive award to display back in their office.

To qualify, multi-unit franchisees must have at least five operating units, and have been in a franchise system for a minimum of two years. Multi-unit franchisees can nominate fellow multi-unit franchisees. Franchisors can nominate outstanding multi-unit franchisee performers in their systems.

Sponsored by Comcast BUSINESS CLASS

Nominations are due February 7, 2014
Winners will be announced February 14th, 2014

Questions? Contact Christa Pulling via email at: christap@franchiseupdatemedia.com

Nomination Categories:

Role Model Award
For providing an example for others to follow in franchisee success.

Innovation Award
For bringing a new and unique contribution to their brand.

Spirit of Franchising Leadership Award
For extraordinary and enduring performance,growth, and community giving.

Noble Cause Award
For passionate, unwavering support for those in need.

Influencer Award
For demonstrating the path to success to other franchisees.

American Dream Award
For achieving remarkable success in his/her new country.

Veteran Entrepreneurship Award
For outstanding, performance, leadership and innovation by a veteran.

GOLF TOURNAMENT

2014 MULTI-UNIT FRANCHISING CONFERENCE

PRE-CONFERENCE GOLF TOURNAMENT | LAS VEGAS

12:00PM SHOTGUN START

Golf Fee: $195.00 | Club Rental Fee: $50

Join your franchise colleagues at the 2014 Multi-Unit Franchising Conference Golf Tournament. The tournament is a premier networking event and a casual forum to strengthen existing relationships and build new ones with industry decision makers. All players must be registered for the Multi-Unit Franchising Conference in order to participate in the golf event.

Each player receives: cart, box lunch, two drink tickets, post-game awards reception, and transportation to and from Caesar's Palace. *All golf fees are additional fees beyond the conference registration rates.*

Arroyo GOLF CLUB

2250 C Red Springs Drive.
Las Vegas, NV 89135
www.thearroyogolfclub.com

Reservation deadline is April 15, 2014

Reservations: Golf registration can be accessed through online conference registration at: multiunitfranchisingconference.com/register.html

Questions? conferences@franchiseupdatemedia.com

Interested in sponsoring? Please contact Sharon Wilkinson for more information at 408-997-7795 ext. 216 or via email: Sharonw@franchiseupdatemedia.com

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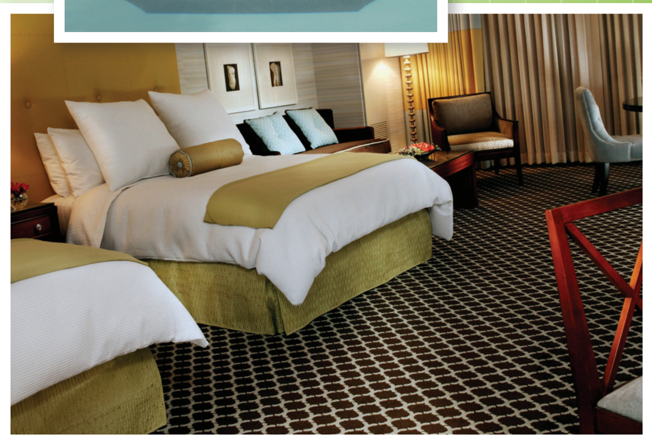

RATE:	Palace Augustus or Octavius Tower Guest Room – $189 single/double
CUT OFF DATE:	March 31, 2014

Call 866-227-5944 today to book your reservations under the Multi-Unit Franchising Conference. Guests may also book online using this unique web link to get your group rate:
https://resweb.passkey.com/go/SCMUL4

(After March 31, 2014, the group rate will be offered based on hotel availability only.)

BY EDDY GOLDBERG

LOYALTY THROUGH SERVICE

Front-line training keeps customers coming back

When a customer ordered a sandwich at one of Mike Knobelock's restaurants in North Carolina, it came with pickles on it. "They didn't like pickles," says JJ Villafranca, COO at Knobelock's company. "They were a little irritated about it, but commented on how friendly the employees were."

So how did the company respond? The manager contacted the customer and asked them to come back and be treated to a lunch or dinner with him. Sometimes the area supervisor will make the offer. Villafranca says they are working on implementing this policy in all their restaurants. Regardless, he says, "We answer all our complaints."

"We preach that there's always something we can do inside of our four walls to make the experience for the customer better," says CEO Knobelock, whose company, MSK Enterprises, operates 47 Church's Chickens, 20 Little Caesars, 3 Sears Appliance & Hardware stores, and 1 Dekker's Mesquite Grill. "You always hear complaints about marketing, new products, all those outside things, but there are always things you can do inside your four walls to improve and keep the people coming back."


Mike Knobelock

"There's lots of competition out there," says Villafranca. "Service and quality are just so much in our control that it's absolutely critical we become experts in it."

It may appear self-evident that great customer service results in loyal customers, but it's not as simple as it might seem, according to Jeff Reetz, who operates 30 Pizza Hut restaurants, 29 cobranded with WingStreet.

"Clearly the brand and the franchisees believe there is a relationship between good customer service and repeat, loyal customers, but is it easy to prove or show? Do the metrics always reveal that? It hasn't been our experience," he says. "We have restaurants where the metrics aren't as high as others, yet they have very strong sales growth; others have very good customer service metrics and sales are lackluster." However, he adds "You can't deny good customer service plays a role in whether a customer decides to return."

Many QSR customers simply look for the best deal and tend not to regard service as highly. While these brand switchers are more loyal to the best deal than to any particular brand, there are things operators can do to increase their chances of bringing them back.

"Fundamentally, if you have great product, clean restaurant, hospitable personnel, and execute the concept well, those customers who are not brand switchers will come back to you," says Reetz.

Room for improvement

Last year, Empathica, a customer experience management firm, surveyed 10,000 U.S. consumers on the top 62 QSR brands. The Quick Service Restaurant Benchmark Study measured food, order accuracy, speed of service, staff, value, cleanliness, atmosphere, and menu for QSRs that customers had visited in the past 30 days.


JJ Villafranca and daughter Jacqueline, 7

The study revealed that QSR customers ranked service over price, says Gary Edwards, chief customer officer at Empathica (since acquired by Mindshare Technologies). He says this provides an enormous opportunity for QSR operators to appeal to customers on service

> "There is one way and one way only for any company to ensure its financial security: by creating satisfied, loyal customers. A satisfied, loyal customer is one who re-purchases, again and again, and recommends a product to friends as well."
> —*The One to One Future*, Don Peppers & Martha Rogers, 1993

elements they can control—while still growing sales. But there is a structural challenge franchisees must overcome.

"Customer service is a heads-up business, but there's a gravitational pull to become eyes-down to achieve throughput and efficiency. You need some exceptional people who learn to look up, smile, engage, and reinforce the positive—even if it's only a slice of pizza," says Edwards.

"When we think of service and hospitality I think the words get used interchangeably and they're not," he says. "We have incredible service standards,


Gary Edwards

but rarely see true hospitality. The compromise is we won't see the true service standard."

He says these are trade-offs we've made as a culture: sacrificing true hospitality for order accuracy and speed. The good news for franchisees, he says, is that the bar is set so low, "Anything done thoughtfully in the consumer's interest tends to stand out."

Speed still counts, but it's no longer a big differentiator, says Dave Melton, who operates four high-volume Domino's Pizza stores in Manhattan, where speed is everything. "As long as you're within the 20- to 30-minute time frame, then you're providing what people expect. If you can consistently do 15 or 20 minutes, that's ratcheted up customer service," he says. Still, he adds, "I think speed has been commoditized."

When most elements of the customer experience become commoditized, consumers tend to be constantly looking for deals, pushing the price point, says Edwards. When that happens, "I feel sorry for the franchisees; margins tend to be so thin." And while he praises the "brilliant engineering" by franchisors and franchisees in operational efficiency and food quality, he says something is lost in the process.

While making helpful menu suggestions or pointing out the deal of the day matters, "Little things, along with showing some genuine enthusiasm for the product choices that guests make can go a long way," says Edwards. "QSR brands, no matter the specific type of food, are fighting for the same customers. To conveniently find great product at a good price with a little unexpected flair makes the experience stand out, and that really drives consumer loyalty."

In fact, the study found an average of only 15 percent of consumers received recommendations when visiting QSR sandwich brands. "Our study reveals that brands are often missing the mark by failing to provide menu recommendations, an important tactic in good customer service and in increasing check size," he says. "It doesn't take a lot of time—2 or 3 seconds—and can make all the difference in the world to a customer. The opportunity is to work efficiently and quickly, but change those few seconds to put a smile on someone's face. Great brands understand this."

Training the front line

"You're going to generate loyalty when you consistently deliver what you promise," says Melton. "If customers see a pizza on TV and it doesn't look like that when it arrives at the door, there's a problem."

Melton, known for his ability to inspire exceptional customer-service performance in his employees, laid out his methodology in a book he co-authored, *Hire the American Dream: How To Build Your Minimum-Wage Workforce into a High-Performance, Customer-Focused Team.*

"Your front-line employees are really the most important element of service because they're the ones facing the customer and control the whole customer experience," he says. But how do you get them to care, to interact with the customer?

"As the owner of the business you're the most important person who affects the personality of your business," says Melton. With pizza delivery, the entire customer interaction takes just one or two minutes, so for Melton it starts with hiring. Do candidates show some personality in the first minute? Do they make eye contact? Do they have an outgoing, positive attitude? Explaining how


Dave Melton

these characteristics can help them earn more money each shift and advance in the company provides sufficient incentive for employees who get the message.

"You want to encourage them to interact with the customer, because when you can show your team members they're going to make more money by having loyal customers, they see what's in it for them," he says. Melton says there were some problems at first, but when


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"Customer loyalty management is the holistic approach to driving higher levels of loyalty through the culmination of all points of interaction with the brand. This includes what customers consider, buy, and come back for, combined with where they share their opinions and how they prefer to engage across both digital and physical environments."

—*Customer Loyalty Management: Finding the Holy Grail of Marketing*, TIBCO Loyalty Lab white paper, 2013

he convinced a couple of key people to see that this approach worked, it drew others like them to the company and the business began to take off.

When you have a culture of getting the customer to say "Wow!" and show an entry-level pizza delivery person how this works in their favor, they buy into it—and they stay, says Melton. "They're coming to us because they want to make money. We have delivery guys who have worked for us many years and make great money. They're experienced, know their customers, and give them a good experience." He also encourages his managers to teach their teams to go out of their way to take special care of customers who order three or four times a month.

"Our customer feedback program is also a loyalty program," says Melton. "As I mention in my book, a customer who has an issue and has that issue resolved in their favor is more loyal to a business than a customer who has never had an issue, since their confidence that any issue they may have will be taken care of." The brand's website provides customers with the opportunity to rate the pizza, the delivery person, the entire experience, and whether they would recommend to a friend. "We've made it easy to give feedback about how we're doing, and it makes us better. We track whether we get a 1 through 5, and try to call back any score below a 3."

It starts with hiring

It's common practice to hire the best possible person for any particular position, and in today's economy employers can be more selective if they're willing to take the time. As competition heats up, good customer service can become a real advantage, and hiring right plays directly into that.

"There's always been an element around customer service, but today it's probably more detailed, specific, and better understood in terms of its importance in the overall equation to the success of your business," says Reetz. "Take a 16- or 17-year-old kid who never had a job or interaction with the public. They don't understand customer service, that they're on stage all the time, and that it has an impact on the restaurant. So there's a lot of awareness-building with new team members."

John DiJulius

When it comes to hiring, Reetz cites the "hire for attitude, train for skills" approach popularized by Chick-fil-A, among others. "We can teach you how to make a pizza," he says. "We cannot teach you how to smile, be friendly, or groom yourself for the kind of public exposure you're going to have."

Second, he says, since no one can be perfect at hiring, he subscribes to the "hire slow, fire fast" philosophy. "If we identify a team member not meeting our expectations, we'll coach them on hospitality," he says. But there are limits. If, after coaching, a new employee cannot be brought up to operational and behavioral standards in a reasonable time, they must be let go, for the good of all.

At his company, employee training begins with computer-based training on the basics (e.g., food safety). From there, based on the position, employees are taken through training modules such as hospitality (e.g., how to answer the phone and take orders). The next step is "guided practice" where a manager or assistant manager takes the new hire to the actual position and coaches them through it. When they perform well enough, they can go out on their own.

"Our goal is every employee must be fully trained within 30 days," says Reetz. This is not only good for the customers, but also critical in terms of employee retention. "It makes them more likely to stick around."

Building a culture that supports this starts with hiring friendly people, Edwards agrees. "I'm surprised at how many brands don't pay attention to this. Find the right people who can deliver on the promise of what customers expect."

Bad service—whose fault?

The customer experience cannot depend on which employee or server they get, whether at a hair salon or a fast-food restaurant, says customer experience guru John DiJulius, founder of The DiJulius Group. "You must have customer experience systems that average employees can follow. The majority of employees will not be superhuman rock stars."

So why is customer service so bad? "Because of management and the company," says DiJulius. "We don't think it's


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the front-line employee." He says the level of an employee's customer service is predicated on how high their service aptitude is, and that comes from three sources: their previous life experience (not much with a young person); their work experience (their previous training, not always good); and their experience at their current job.

"Every company preaches customer service, but at the end of the day how much training are they giving employees on the hospitality side, as compared with the technical side?" he asks. "All the training given is technical, there's no soft-skill customer engagement being taught." With proper training, he says, a 16- or 17-year-old could be exceptional. "The company's job is to train and certify every employee on their service aptitude—just like they do for making coffee or a pizza," says DiJulius.

Rethinking loyalty programs

"Where companies fail miserably is they think a customer loyalty program produces customer loyalty, and it doesn't," says DiJulius. "Before you create a customer loyalty program, you have to make sure the experience is there. Simply rewarding customers is not a loyalty program. Sometimes companies use it as a crutch, but if the experience isn't there it can't take the place of the experience."

Instead, says DiJulius, think of it as a customer *rewards* program, not a customer *loyalty* program. "The only thing that creates loyalty is increased satisfaction from a consistent experience," he says. "I think they go hand in hand, but it starts with the customer experience. If the customer experience is right—and consistent—then we can talk about rewarding customers."

The surprising thing, he says, is that was the airlines who got it right with rewards programs. "They nailed it, but are struggling with the customer experience," he says. For example, at his John Roberts Spas, DiJulius rewards his repeat customers with a VIP program modeled on the airlines' frequent flyer programs. His has four tiers, based on a customer's total spending and number of referrals they provide.

Taking it a step further, he also uses his VIP program to boost sales. In early November he sends letters to customers saying something to the effect of, "You're $250 away from hitting Gold. Would you like to buy some gift certificates?" This drives people in to spend more at the same time it rewards them for it.

In his work with franchisees, DiJulius says he's shocked at the mindset of franchisees who don't think it's "fair" to reward some customers and not others. "You *don't* give less of an experience to any customer," he says, but you *do* reward loyalty. With airlines, for example, preferred customers get perks like early boarding or free bags, but everyone gets on the plane and arrives at the same destination.

Melton doesn't have a problem with rewarding his best customers. "I tell my guys, 'If you know a customer who's ordered 30 times, feel free to call them up and say we're going to send them a free artisan pizza tonight. Just training people to make a customer say 'Wow'—and for the amount of money we spend on marketing as a percentage of sales—when I can lock in a customer for the price of a side order or a pizza, I'm getting an incredible bargain."

Still, no matter how well your front line staff perform, when it comes to customer service, says DiJulius, "There's no ribbon-cutting ceremony to being world class. You never arrive."

MEASURING UP

Jeff Reetz measures everything, including carefully tracking four key components that affect the quality of his customers' experience:

1) HQSC (overall hospitality, quality, service, cleanliness);

2) food safety (through an independent organization, in addition to his own monitoring);

3) CHAMPS (cleanliness, hospitality, accuracy, maintenance, product, service); and

4) repurchase intent.

"We take a rather absolute view of this last measurement," he says. "When a customer is completing a survey, one question is, 'How likely are you to recommend Pizza Hut to friends and family?' For all the transactions we do, we look at what percentage are 100 percent satisfied."

He makes sure not only to measure these things, but also to evaluate them. And thanks to his COO, he takes the individual measurements one step further, combining them into a single performance management system.

"Our COO put together a program that links together all the elements of what we expect from every position in the organization, and how it rolls up into performance appraisal and compensation," he says. "He linked together what were a lot of independent things, making sure all the elements of the scorecard, all the things we're tracking, are fed into the performance management system."


Jeff Reetz

Every restaurant has a scorecard, every area has a scorecard, and the company has an overall scorecard. "This tells us sales growth, profit attainment, employee retention, the percentage trained in 30 days, those likely to recommend, CHAMPS, HQSC—all in one scorecard," says Reetz.

The system was rolled out at the beginning of 2013. To help make it fly, it was created in coordination with the restaurant managers. "We got buy-in with the process," says Reetz. "You can't complain if you co-authored it."

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BY HELEN BOND

LEASE NEGOTIATION 101

Laurel Wilkerson

Zeroing in on the right site and the right deal

After 34 years of negotiating leases for 150 hair salons in California and the New York Metro area, Gary Grace appreciates the advantages of being part of a franchise system with a well-known name.

"You get more respect from the landlord because you have the power and success story of the brand behind you. It really makes a difference," says Grace, CEO of California-based GG Enterprises, which today owns 36 Supercuts salons and one Cost Cutters. "The bigger the name signing the lease, the more secure the landlord feels, and the more leverage you have in negotiating."

These days, nearly all prime real estate is rented, not sold: an estimated 98 percent of retail and commercial space is available only for lease. And while a familiar name might get a franchisee in the door, landing a lease that leads to long-term success takes not only due diligence and attention to the fine print, but also the ability to balance the dual roles of franchisee and tenant, says attorney Amy Cheng, a partner with Cheng Cohen in Chicago.

"As a multi-unit franchisee, you are kind of in the middle," she says. "You have to negotiate the lease with the landlord to protect yourself, and yet you have to get the franchisor's approval. Communicating with both parties is essential for making sure things go smoothly."

Cheng, who works with franchisors and has negotiated deals for multi-unit franchisees, says complications arise when a franchisee brings a franchisor—and the franchise agreement terms—to the table too late, resulting in a three-party negotiation.

"Multi-unit franchisees often don't think about the requirements of franchisors and getting the landlord to understand how important those requirements are up front," she says. "If you have a good franchisee and a good location, it is always my hope that lease negotiations are not what kills the deal."

The art of leasing

The level of support franchisors provide varies widely by system, size, industry, and the individual needs of franchisees, says Jim McKenna, president of McKenna Associates, a franchise consultant in Milton, Mass., and founder of The Franchise Real Estate Institute. To take advantage of a brand's real estate expertise, he says, franchisees should take the time to learn what assistance their franchisor offers and speak with other franchisees to find out if the system delivers.

When it comes to learning the ropes of site selection and lease negotiation, most larger franchisors can be invaluable in helping franchisees find the best available site. Smaller systems, with fewer resources and connections, may offer training and guidelines to identify sites and to educate new franchisees on the required lease language and brand's site selection requirements.

The franchisee then does the legwork, based on the system's criteria, such as geography, demographics, size, tenant mix, traffic, parking requirements, and visibility. Franchisees also can take advantage of site research companies such as Esri and Claritas, using the success factors identified by the franchisor, says McKenna; some franchisors contract directly with these firms and provide these services to their franchisees.

"The best thing a franchisee can do is to listen to the franchisor's advice," says McKenna. "They know their site success factors and what you should pay for the deal."


Gary Grace

And, don't stop there, he says. Since the right location is key to long-term financial success, especially for retail concepts, it's smart to seek additional support—whether from a real estate expert at the home office or through a broker—to prepare for the leasing process, particularly since landlords negotiate leases for a living. "All franchisees need to be aware that it is a critically important decision and they need to use the best commercial broker in their area, as well as a local 'connected' real estate attorney," he says.

John Gordon, real estate professional with New Orleans-based Smoothie King, which recently announced an aggressive expansion plan, relies on a network of retail space tenant rep brokers as his eyes and ears on the ground to hunt for the most suitable sites, even before the "For Lease" signs go up.

These are connections that can count—and add up to big savings over the lease term. As the economy improves in different parts of the country, many franchisees, particularly small-box tenants, are fighting over the same locations, says Gordon, who recently partnered with two franchisees to open seven stores in Mississippi and Florida over the next four years. "We have to be quick, negotiate hard, and be reasonable," he says. "We have to understand what deal points matter and focus on them."

Landing the best location

Armed with the brand's site selection criteria, franchisees must be analytical and unemotional when searching for a location, says McKenna. "Don't fall in love with a piece of property," he says. "Fall in love with your wife or your husband, never with real estate."

And the cheapest rent is not always the best deal. There may be a better site right across the street that costs more per square foot but has a greater chance of leading to higher profitability over the term of the lease. McKenna says opting for a site because the rent is lower can mean locating "60 feet from success."

Marco's Pizza franchisee Laurel Wilkerson, an attorney who spent 20 years as an Army JAG Corps Officer, says that when searching for new locations it pays to be open-minded. She is known to scout sites by driving grid by grid, taking the easy-in, easy-out "soccer mom" approach to uncover where customers live, visibility, and traffic patterns by time of day.

Wilkerson and husband Kevin, a retired colonel with 24 years as an Infantry Officer and a master's degree from Harvard University, are in the midst of a 20-store development in Western Oklahoma, which includes Oklahoma City and Moore, the city flattened by an EF5 tornado last May.

Wilkerson also cautions against just going for the "pretty penny" instead of a location that offers greater long-term bang for the buck. In Moore, for example, the Wilkersons opted for an older site, formerly home to a 7-Eleven that relocated directly across a busy street and that has provided their Marco's restaurant with high visibility, something she says "You just can't buy." In 2012, when they opened at that site, the store set records for the brand's largest-ever U.S. opening.

"Almost every time, we thought we ended up with our second pick and it has turned out to be great," she says. Their strategy is working. In 2012, Marco's named the pair its Multi-Unit Franchisees of the Year.

Coming to terms

Once a franchisee narrows down their choices, the focus turns to the economics of the deal, which can include a myriad of terms that can make or break the business (see below). While there is no standard lease agreement, Cheng says she generally sees two types of leases: a lengthy document that addresses every detail large and small; and one where the landlord has only a two-page document. Both types require a sharp eye, she cautions. And in either case, she says, seek counsel and address any sticky issues at the start.

Franchisees also must look hard for any requirements or regulations in the lease document that restrict them from doing business, such as limits on hours or the type or size of signage, to ensure there is no conflict with their franchise agreement.

Grace always negotiates out the landlord's right to relocate his sign within the shopping center during the course of the lease. "This is just death," he says.

Gordon advises franchisees to make sure the rent commencement date matches the day the franchisee will be ready for business. Otherwise, they will owe rent before the cash starts to flow.

Renewal time

Even with a long-term lease, franchisees must think ahead to renewal options before signing. Cheng advises franchisees to lock down renewal terms in the initial lease to prevent the landlord from changing the agreement at renewal time.

Over the years, Grace says he has seen the power balance in lease negotiation cycle back and forth between tenant and landlord. These days, he is in the process of re-upping his available renewal options and, for the most part, has negotiated rent reductions based on current market value. "I try to be fair," he says. "I am willing to pay market rent, but I don't want to pay more than market rent."

A good track record from a tenant who pays the rent on time and is a solid corporate citizen can be used to leverage the negotiation for a second lease, or to position them for a better site or additional locations. It never hurts to ask.

"Everything is negotiable, 100 percent," says Smoothie King's Gordon. "At the end of the day, walking away from a deal is sometimes your best option. If you have confidence in your tenancy and your ability to do business, if the deal is not right there is no sense paying for it."


Amy Cheng

Terms to know

After a franchisee identifies a desired location, it's time for the negotiations to begin. In most cases, the landlord provides a letter of intent (LOI) or an initial draft of the lease agreement for the franchisee to review. As Gordon noted, everything is negotiable, such as length of the lease, security deposits, concessions for tenant upgrades, personal guarantees, escalation clauses, etc.

- **The term.** The period the initial lease period will run. A common example is a 10-year initial term with one or more 5-year options.
- **Rental cost.** Rent is generally given as a cost per square foot or in an annual amount.
- **Percentage rent.** Also known as overage rent, agreeing to this clause means paying the landlord a percentage of gross sales over the base amount as a component of rent; frequently found in retail leases.
- **Define everything.** For existing spaces, the lease should define exactly what will be available in the space. For example, a landlord should provide all the utilities, including electricity, gas if needed, water, and sewer connections. Landlords can also provide rest rooms, HVAC units, cooking vents, ceilings, lights, etc. Build-to-suit arrangements require substantially more detail.
- **Lease types.** The type of lease you sign can have a significant impact on your bottom line. One basic variable is how much the tenant is responsible for expenses outside their four walls. In a full-service lease (also known as a gross lease), the rent is fixed and the landlord pays for taxes, insurance, and maintenance out of the collected rents. One common tradeoff is to pay more for base rent and not be responsible for common area maintenance (CAM, see below), taxes, and insurance versus opting for a lower rent and being on the hook for those additional expenses. These costs are bound to increase over time, so landlords build in escalation clauses to match. Understanding these clauses will help in choosing the type of lease, as well as in building projected increases into future budgets.
- **Net leases.** This type of lease has a provision for the tenant to pay costs associated with the operation of the property, such as property taxes, insurance, repairs, utilities, and maintenance (in addition to the basic rent). There are also "double net" and "triple net" (NNN) leases. The differences between these three types of net leases is how much of the property's operating costs the tenant is responsible for paying. While the rent may be lower with a triple net lease, the monthly savings can be devoured if a large and unexpected repair is needed, such as replacing the roof. The chances of this kind of expense occurring are greater in older buildings. Tenants seeking fixed costs over the lease period should weigh

lower rent against the chance of costly surprises down the road.

• **Common area maintenance (CAM).** These are expenses the landlord passes on to the tenants. Shared expenses can include maintenance, landscaping and other upkeep, real estate taxes, or specific references to triple net charges. CAM charges are common in shopping centers, where tenants are charged a share of expenses such as parking lot maintenance, snow removal, outdoor lighting, insurance, property taxes, etc. CAM charges do not normally include capital improvements made to the property. Experts encourage franchisees to understand these figures and negotiate a fixed rate or a cap on CAM increases.

• **Tenant improvement allowance (TIA):** This is the sum the landlord agrees to spend on improvements, based on square footage or as a lump sum. The lease clause that covers this is called "Improvements and Alterations." For franchisees, a leased space must be customized to meet the franchisor's

Jim McKenna

specifications. The tenant and landlord should agree on who does the design, the contractor, the timetable, and how to allocate the cost. If the cost exceeds what the landlord offers, the franchisee must pay the overage; using your own contractor provides more control over costs. Also think ahead to franchisor-mandated upgrades, and be clear before signing which improvements need the landlord's approval.

• **Rider.** A supplement or addendum attached that becomes part of the lease; the more specific and detailed, the better for both franchisee and landlord in terms of avoiding future disputes. Franchisees frequently have unique requirements based on their franchise agreement. A good franchise attorney will ensure the rider includes all the provisions required by the franchisor.

• **Personal guarantee.** For those new to franchising, it will be tough to eliminate a personal guarantee. Cheng encourages tenants to seek ways to limit liabilities after a few years in business, pay a larger deposit up front that will be refunded in exchange for a shorter personal guarantee, or inquire if other properties can be used to guarantee the lease.

One final thought: If the landlord refuses to negotiate at all, most likely you can find a better deal—and a better landlord—someplace else. MUF

BY NATE DAPORE

Pardon Me, Is This Your Two Grand?

If you're not filing employee tax credits, it very well could be!

Do you know there is "free" money out there for your business, and that it is easier than ever to claim it? Last year alone, TaxBreak, a tax credit recovery and processing firm, discovered more than $200 million in available tax credits for clients. Many businesses don't take advantage of the tax credit opportunities available to them, for several different reasons.

Tax credits are designed to encourage businesses to provide job opportunities to groups such as veterans, those in a specified demographic, or those in a specific geographic area. To qualify, your business must have recently paid federal taxes and be for-profit. Businesses with hourly workers and high turnover tend to see the highest qualification rates.

Thousands of tax credit opportunities are available through federal and state programs. The most common is the Work Opportunity Tax Credit (WOTC), which provides incentives for hiring individuals in designated groups, such as veterans. Others include Empowerment Zone Employment Credits, which are designed to help stimulate the economy in high-poverty regions and are worth up to $3,000 per year for each qualifying employee; and the FICA Tip Credit, which varies depending on wages, tips, and state tax credits.

Twenty percent of hourly wage earners qualify their employers for a tax credit up to $9,600 per new hire, with an average tax credit of $1,200. If you have 100 employees, for example, 20 individuals will qualify for an average $1,200 each—earning you $24,000 in available tax credits. Imagine what you can do with an additional $24,000 annually.

Don't walk away from your organization's share of the millions of dollars in tax credits that are available to you each year.

Can you afford to leave this money on the table? A tax credit, unlike a deduction, actually reduces the amount of taxes you owe each year and adds money directly to your bottom line—money that you can put back into your business to help it grow.

Doing it right

Applying for, processing, or collecting tax credits can be time-consuming. It takes a lot of effort, deadline tracking, and organization to ensure that you provide all of the required information properly for each credit. In the past, the additional paperwork burden HR teams had to manage when dealing with tax credits was such a huge issue that many companies simply chose not to participate. With the approval of the E-Sign Act by the federal government and various partnerships with HR technology companies, the process is now simple and virtually paper-free.

To be successful with a tax credit program, you must make sure to review every person who applies and comes to work for your company—something that can only be done effectively and accurately by using technology. Prescreening questions can be easily integrated into the online job application process. The results are typically accessible during the applicant tracking and onboarding process.

Don't walk away from your organization's share of the millions of dollars in tax credits that are available to you each year. These credits are designed to help your business grow and to help stimulate the economy. So embrace the tools of today to help you track your tax credits… because this two grand I just found might be yours!

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.*

Are *Your* Customers Utterly Charmed?

Delivering a better experience will set your brand apart

At the 2013 Multi-Unit Foodservice Operators conference, Chick-fil-A President Dan Cathy explained how the company plans to grow in the future. For context, let me remind you that their average unit volume (AUV) has grown from $2.7 million in 2010 to $3.1 million in 2013, the highest of any QSR concept. Considering Chick-fil-A operates only six days a week, the profit and cash flow generated by these sales are stunning.

Cathy posed the question, "How does a high-end restaurant get a $35 check average for food when we have a $7 check average? They are not giving five times the food we are, so what is it? Is it fresh flowers in the dining room, tableside ground pepper offered on salads?" If you haven't dined there lately, these elements have become part of the Chick-fil-A experience. Customers feel special and notice the difference, yet the cost to the operation is minuscule.

Cathy continued pondering on the appeal of fine dining and why people willingly pay so much more for it. "Is it elevated service language and genuine hospitality that satisfy customers' craving for honor, dignity, and respect?" To which I would answer an emphatic, "Yes!" And this insight is not unique to Chick-fil-A. More than 100 years ago, the great American psychologist William James wrote, "The deepest craving of human nature is the need to be appreciated."

For a personal example, I just flew 20 long hours on Singapore Airlines. And it was… wonderful! Now granted, I was flying business class, with remarkable "delighters" including a state-of-the-art entertainment center with a huge selection of movies and TV shows and audiobooks, plus a high-quality headset with noise cancellation, and soft leather seats that convert into a private bed with down pillows and comforter. And I enjoyed delicious hot meals on real china and was offered espresso with my dessert. But that's what international travelers expect in business class. Those are necessities, not differentiators.

The most remarkable and delightful aspect of my experience was the person-

No other sales-building strategy comes close to paying off in your own local stores like excelling on the customer experience.

alized care and service I received from the team of flight attendants. I'm talking about the classic service behaviors: extend a warm greeting, share a welcoming smile with genuine eye contact, address the customer by name, engage the customer with respectful language, convey sincere interest in the customer's well-being, anticipate and fulfill customer needs, respond graciously to special requests, wish the customer a fond farewell, and thank and invite the customer to return.

Now if you go back and reread the previous paragraph, you'll recognize that Chick-fil-A strives to deliver those same service behaviors, even asking the customer's name when they take their order—and this "personalization" service standard is upheld while attaining the highest AUV of any QSR. Oh, and it does not add any expense to the operation. There is no line item on the P&L that says "Cost of Making Customers Feel Deeply Appreciated as a Human Being."

You've heard about all of these service behaviors before, haven't you? They don't seem like "differentiators" when you simply read the description above. You have to *experience* superior execution of those service standards to truly feel the difference. In the case of Singapore Airlines, I was utterly charmed and captivated. I left that plane feeling revitalized, rather than exhausted. In a similar fashion, but at a tiny fraction of the price, customers leave Chick-fil-A feeling delighted they have been truly and personally served, rather than merely satisfied that they got what they ordered.

The foundation of excellence for any QSR restaurant, of course, is quick service. It takes great operations management to consistently achieve quick service that delivers a quality product with high accuracy at high volume. But again, that is a necessity, not a differentiator. Chick-fil-A has achieved very high levels of both operational excellence and product quality—and they have successfully separated themselves from competitors by providing a luxury level of interpersonal experience.

What's the "secret" to profitable same-store sales growth that you can learn from Chick-fil-A? Deliver a better customer experience than your competitors. The economics are straightforward: an outstanding customer experience increases average spend right now and increases the likelihood of future visits. Best of all, you create brand loyalists who send you more business, driving comp sales.

How do you know if a customer is a passionate fan—a promoter? The easiest way is to survey your customers on a regular basis right after they visit and ask them. Then set a goal to increase the number of loyal customers who are highly likely to recommend you. For you as a franchisee, no other sales-building strategy comes close to paying off in your own local stores like excelling on the customer experience.

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BY LUKE ENGELHARDT

Protecting Customer Data and Your Business

Identify and remediate online vulnerabilities now!

Do you know there's an easy way to identify and predict how cybercriminals might get into your organization? Fortunately for already-busy franchisees, the process isn't as complicated as you may think. Vulnerability management is the simplest way for franchisees to locate and patch security holes before would-be data thieves find and exploit them.

Vulnerability management is the process, implementation, and controls that identify the location of weaknesses in an infrastructure that could act as secret tunnels into your network. Ultimately, it's a critical foundation on which to build your business's network security.

While there is no such thing as being hack-proof, data thieves and cybercriminals are notoriously lazy. They would much rather go after low-hanging fruit than invest the time and trouble to break into a secured network or website. By ensuring that your business addresses and resolves known vulnerabilities, you dramatically limit your organization's exposure to hackers.

Before reading any further, you should first determine whether you have control over your own network security and vulnerability management. Some franchisors negotiate deals with vendors that take care of vulnerability management from the franchisor end. In other cases, the entire security process is up to each individual franchisee. In either case, some of the work ends up falling upon the franchisee. Since accountability varies on a case-by-case basis, I recommend that you contact your franchisor directly to discover how much of your vulnerability management is in your hands.

Managing vulnerabilities

The more systems, computers, and apps your company has, the more places a cybercriminal can find a weakness. Vulnerability management helps guard against common cybercriminal tactics such as back doors, buffer overflows, denial of service, and injection-related issues. The most common way of managing vulnerabilities is through vulnerability scanning. Other ways include:

- developing or implementing applications created using secure coding guidelines;
- updating security software with the most current version;
- pre-testing and deploying vendor-supplied patches within a month of release; and
- regularly using and updating antivirus protection to protect systems from evolving malicious threats.

While all these tactics help impede hacker progression, vulnerability scanning is arguably the easiest way to discover holes in your business systems that cybercriminals could exploit, gain access to, and use to compromise your organization.

If your business processes, handles, maintains, stores, or transmits credit or debit card information over the Internet, you are required by the Payment Card Industry Data Security Standard (PCI DSS) to complete quarterly vulnerability scanning.

Vulnerability scans are automated, affordable, high-level tests that identify known weaknesses in software, hardware, and network structures. Some are able to identify more than 50,000 unique external weaknesses. Because cybercriminals discover new and creative ways to hack businesses daily, it's important to scan often. An added benefit of vulnerability scanning is identifying out-of-date services or missing security patches. This is a great way for you to identify patches or updates that might have been overlooked in your regular update schedule.

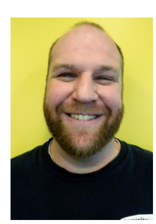
Make it a regular habit

Vulnerability scanning isn't just about locating and reporting vulnerabilities. It's also about establishing a repeatable and reliable process for implementing remediation month after month. Negative scan results that aren't remediated render all the scanning (and other security precautions) you just completed worthless.

After a scan completes, it's crucial to fix any located vulnerabilities on a prioritized basis. Our vulnerability support team recommends prioritizing based on risk and effort required. Continue running scans until the scan returns clean. Your PCI vendor or IT director can assist further in your vulnerability remediation and repair of vulnerabilities.

Finally, a quick note about vulnerability scans. Not all of them are created equal. It's important to ensure that a company with PCI Approved Scanning Vendor (ASV) accreditation conducts your scan. Shop around for an ASV that regularly updates their scanning engines and tests for at least 50,000 vulnerabilities. If scanning engines aren't updated regularly, criminals may easily be able to exploit the system you *thought* was secure. If regular scanning is important to you, select a vendor that allows you to conduct unlimited scanning without extra fees.

Vulnerability management is only a single component of PCI DSS, and not the only thing you should be doing to ensure the security of your business. However, I recommend it as one of the best things you can do to make your processing environment as secure as possible.



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BY CAROL M. SCHLEIF

Your Own Worst Enemy?

5 ways we sabotage our financial affairs

Investing wisely does not come naturally to most of us. Many of the skills that support ultimate financial management success run counter to how our natural wiring prompts us to behave. Sound long-term investment decisions often require the ability to make choices that differ from near-term "prevailing wisdom." But we are social creatures, most comfortable when we fit in.

We crave predictability, but the markets are unpredictable and random. We infer short-term "patterns" reinforced by what we just read online, but don't recognize long-term sea changes that evolve with subtle nuances. We love to share stories, but often find it challenging to grasp complex financial and mathematical relationships. And we are irresistibly drawn to what is happening in the here and now, often refusing to focus on what may or may not come to pass some time in the distant future.

We can actually retrain and strengthen important neural pathways throughout life by learning new skills or teaching ourselves to approach problems differently. In short, it's never too late to re-evaluate your habits and take control of your financial destiny. The first step is to *commit* to taking a different course of action. Outlined below are five of the most common ways individuals often sabotage their own financial affairs—with suggestions on ways to approach things differently.

1) Ignoring the future. When faced with a choice of "now" versus "later," it has been shown repeatedly that the vast majority of us choose "now." In one classic study, respondents were asked if they would prefer $10 today or $11 tomorrow. The bulk chose "today." However, when asked if they would take $10 in 365 days or $11 in 366, the bulk chose to wait the extra day. Part of the reason for this is that "today or tomorrow" are both palpable, near-term time periods. When looking out a year or more, one day seems as far away and fuzzy to comprehend as another. To combat this natural tendency, you must consciously shift your sights from how compelling that next cup of coffee is and convert your thinking into: "If I want to have $1,000 saved in the next 12 months, I need to deposit $2.75 per day, starting today."

2) Ignoring the implications of compounding. The importance of starting to save *as soon as possible* cannot be overemphasized. While compounding may seem dull in the beginning, once the balance starts to grow, the bottom-line advantages can be startling. For example, take two different 30-year-olds and their retirement savings plans. The first saves $1,000 per year for the first 10 years and then does nothing for the next 20. Assuming a compound annual increase of 8 percent, this individual invests a total of $10,000, which increases to $72,923 by year 30. The second individual does nothing for the first 10 years and then saves $1,000 per year for the next two decades, in an attempt to catch up. As the chart shows, the second individual invests twice as much, but ends up with a substantially smaller pot after 30 years because they had a shorter time to compound the money.

	Total Invested	"Profit"	Ending Total
Invest for 10 years, compound for next 20	$10,000	$62,922.95	$72,922.95
Wait 10 years, invest, and compound for next 20	$20,000	$29,422.92	$49,422.92

3) Spending more than you earn. It can be incredibly difficult to ignore the siren song perpetuated by every ad to "Buy!" but it's imperative that you learn to if you intend to be financially secured. Divide your total annual expenses into weekly increments and compare the total with your weekly take-home pay. Reevaluate your "needs" and "wants" to ensure there is enough left over each week to save and invest.

4) Focusing more on what you can't control than on what you can. The media is always trying to predict the market's next move as if an accurate prognostication would yield an investable event. Even if you can figure out what the economy is going to do, you can't know how individual stock prices or even broad sectors will react to events. Falling into the fantasy that you can accurately predict market movements can lead you toward trying to "time" your entry into or out of specific asset classes. While you can't control performance, you can have quite a bit of control over your costs, taxes, asset allocation, and the frequency that you readjust, reassess, or rebalance your asset mix. Spend your time getting a handle on those factors and you won't have time to fret about anything else!

5) Mistaking clubhouse banter for savvy investment advice. For every "I made 20 percent last year in Z Widget" story you hear, there are just as many tales of investments that went seriously awry. It's human nature to pass along only the stories that put one in a favorable light. Someone had to have owned all those imploding Internet stocks! The unfortunate thing about being exposed to the "I made a killing" stories is they can lead you to think your investment choices are somehow not as well positioned as others. Each bit of information prompts our brains to want to take some sort of action—which is more likely to be an emotionally based reaction than a well-thought-through plan customized for our individual needs. So set your own big picture goals, divide them into reasonable steps, and get going in crafting your own future! MUF

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Ratios Rule!

But do you know which ones to watch?

In earlier articles, I have discussed your two key yardsticks of financial performance: the balance sheet and the income statement. Taken together, they represent as complete a financial picture of your company as it's possible to get.

Now, it's a common practice (and a sensible one) for businesses to have at least two sets of financial statements (or maybe three): one for the IRS (with the tax rules and regulations making net profit look as small as possible); one for your banker (adjusted to present the most glowing picture of the business); and one for yourself. But remember you can't fool all of the people all of the time. And the worst possible person to fool is yourself. You need clear, concise, decision-relevant information.

Incidentally, two or three sets of *statements* does *not* imply two or three sets of *books* (the general journal and the general ledger, which report all financial events that occur in the business). Having more than one set of books implies falsifying financial transactions, and that's a good way to go straight to jail, courtesy of the IRS. On the other hand, a company's financial statements put the information from the books into a format influenced by the *purpose* for which the statements are being developed.

With that in mind, let's take your financial information and develop a set of measurements that will allow you to monitor both your current position and your progress. We will do this through the development of a series of financial relationships, or ratios. Remember, a ratio is nothing more than one number in relation to another. However, ratios have the very practical property of reducing a relationship to one number, no matter the size of the two numbers involved. (For example, the ratio of 2:1 can be derived from 20 divided by 10, 200 divided by 100, or 200,000 divided by 100,000.) The ratio doesn't care about the absolute size, only the *relationship* of the numbers. And it's this relationship we will use to measure and manage your financial effectiveness.

Clearly the question arises as to which relationships to measure. There are many possibilities, and each financial analyst will have their own preferences. I have chosen to use the K.I.S.S. (Keep it Simple, Silly!) approach; that is, enough to get the job done, but not so much as to become confusing. The accompanying chart has three basic parts: 1) the name of the ratio, 2) how it is derived, and 3) what it measures. In the next issue I will address the key point:

FINANCIAL RATIOS	HOW DERIVED	DEFINITION
1) BALANCE SHEET RATIOS		
Solvency and Liquidity Ratios		
Current Ratios	Current Assets / Current Liabilities	Measures solvency: the company's ability to pay its bills
Quick Ratio (or acid test ratio)	Cash + Accts Rec. / Current Liabilities	Measures liquidity: the company's ability to pay its bills without relying on the sales of inventories
Safety Ratio		
Debt to Net Worth	Total Liabilities / Net Worth	Measures the company's ability to withstand adversity: shows the riskiness of the firm
2) PROFITABILITY RATIOS		
Gross Margin Ratio	Gross Profit / Sales	Measures the percentage of each dollar left after deducting the cost of the goods sold
Net Margin Ratio	Net Profit Before Tax / Sales	Measures the percentage of each sales dollar left after deducting all expenses except income taxes
3) ASSET MANAGEMENT RATIOS		
Sales to Assets	Sales / Total Assets	Measures the efficiency of a company's assets in producing sales: shows how many sales are produced by one dollar of assets
Return on Assets	Net Profit Before Tax / Total Assets	Measures the efficiency of each dollar of assets employed by the firm at producing profits
Return on Investment	Net Profit Before Tax / Net Worth	Measures the percentage return on each dollar invested by owners
Inventory Turnover	Cost of Goods Sold / Inventory	Measures the annual rate at which the inventory is being sold
Inventory Turn Days	365 / Inventory Turnover	Converts the inventory rate to "days of sales" on hand
Accounts Payable	Cost of Goods Sold / Accounts Payable	A measure of the average length of time it takes the company to pay its bills

namely, why would anyone in their right mind do this?

For now, let's be clear on the action steps. First, you need 3 years of financial statements (or as many as you have). Second, you need to lay out your statements in a spreadsheet format (which is nothing more than putting all the financial data on one sheet, side-by-side, by year). Third, use the same spreadsheet format to calculate your financial ratios.

Take a few minutes to read and study the ratios in the table, how they're derived, and what they measure. Note that the ratios are broken down into three functional areas: 1) balance sheet ratios, 2) profitability ratios, and 3) asset management ratios. We will be looking to develop financial "balance," since no individual ratio is the entire story. Taken together, however, we can now begin the process of analyzing your performance—and more important, planning for the future.

In general, there are three ways to use these ratios to analyze your business. The first is to compare your current performance with your performance in previous years (trends). The second is to compare your present performance with others in your industry (I'll provide some industry figures next time). And third is to compare your ratios with your plans in developing a workable operating strategy.

You operate and manage your firm with limited resources, management, capital, and time. You can't fix current problems or spot developing ones unless you know where to look. This "Fiscal Physical" process I'm describing is merely an efficient, effective method to keep your finger on the pulse of your company. MUF

Steve LeFever *is the founder and chair of Business Resource Services (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.*

Ad Index

BY DEAN ZUCCARELLO

The Myth of Multiples

Beware of over-reliance on EBITDA

Whether the mergers and acquisitions market is in a hot upswing or in a down cycle, one valuation measure remains the primary focus in nearly all transactions: the multiple of EBITDA (or cash flow).

This seems to be universally true, as it is used by buyers, sellers, finance sources, franchisors, franchisees, investment banks, and private equity groups. In more than 23 years of managing M&A activity in the franchise sector, we continue to scratch our heads at the overemphasis and focus on EBITDA multiples. This article explores what we describe as "The Myth of Multiples," and how deal-makers put too much emphasis on this inconsistent measure of value.

While the arithmetic to calculate a multiple is simple (transaction price divided by EBITDA), the variables in the calculation are not quite so simple. The transaction price is rarely as straightforward as a single number, and the trailing 12-month EBITDA has more inputs than we can possibly evaluate in this article. More important, the multiple based on the trailing 12-month EBITDA is much less important than a measure capturing the performance improvement a new owner may achieve going forward.

Calculating a multiple is a somewhat arbitrary measure involving numerous variables, adjustments, assumptions, and inputs. The measure involves both quantitative and qualitative factors, which 1) are different in every transaction, and 2) tend not to be uniform across brands, franchise systems, or segments of the industry. More specifically, common factors that may affect the numerator (transaction price) and denominator (EBITDA) are shown in the table. As you can see, the multiple calculation is not quite as easy as it may first appear.

While the arithmetic to calculate a multiple is simple (transaction price divided by EBITDA), the variables in the calculation are not quite so simple.

Numerator (T/A Price)	Denominator (EBITDA)
Cash vs. seller paper	New store pro formas for units open < 1 year
Earnouts	Margin improvements
Clawbacks	New product introductions
Adjustments for fee-owned real estate	Adjustments for site impact, e.g., road construction
Capex and facility upgrade requirements	Sales improvements
Tax implications	Overall brand performance
Stock sale vs. asset sale	COGS and commodity outlook
Exclusive development territories	Adjustments for closed or remodeled stores
Franchise agreement renewals	G&A adjustments
	Owner expenses and compensation adjustments

Other key factors

At least as important to the transaction process and valuation is quantifying how the buyer can improve the business and its cash flow, the walkaway proceeds a seller will earn, and the potential for continuing liabilities the seller may face. Here are four examples we've observed in recent transactions:

- A franchisee purchases units from a long-time operator in a system that had a reputation for high sales and low margin results. The seller had near-zero debt and was content with the cash flow from the business, reducing the motivation for the seller to tightly manage operations. The buyer paid a high single-digit multiple for the business. Upon closing, the buyer initiated technology upgrades and new manager incentives to help drive the bottom line. In this transaction, the buyer increased the value of the business by more than 50 percent in one year. The effective multiple was much lower after one year.
- A buyer purchased stores from a franchisor for what appeared to be a very high multiple. However, with knowledge of the seller's labor grid, pricing, and the market, the buyer was able to initiate new systems that resulted in almost 10 points of margin improvement in Year 1. In addition, because of the buyer's effective management of labor and traffic flow, stores were staffed properly at peak hours, resulting in significant sales improvements. The effective multiple turned out to be less than 50 percent of the original transaction multiple in a short time.
- An independent casual dining concept sells its brand for a 10x multiple, and the seller is quite proud of this. Unfortunately for the seller, the astute buyer was able to negotiate a significant adjustment in the tax basis for the assets, a clawback for failing to achieve aggressive and unrealistic growth projections, and have the seller keep a significant interest in the company for a second bite of the apple (and to keep skin in the game). With declining performance after the sale and a couple of weak new store openings, the adjusted sales price one year after the sale translated to a multiple closer to 6x. In addition, the seller was faced with an unhappy financial partner, wholesale turnover of staff dictated by the buyer, and a rather unpleasant working environment under the new regime. While the primary still had substantial proceeds from the sale, it won't soon be recognized as an authority on creating maximum deal value.
- A franchisee buys a group of restaurants in an adjacent market from a longtime franchisee in the same system. The buyer

Using an EBITDA multiple to value a transaction can be a dangerous thing unless all the variables and nuances are properly factored into the equation.

felt there were G&A synergies, margin opportunities, sales upside associated with image improvements, pricing opportunities, and other enhancements based on the fact that the buyer was considered to be a "better operator." The buyer was confident that he had paid a fairly low multiple for the business. Unfortunately, the buyer soon discovered that the seller did a much better-than-anticipated job of squeezing margins out of operations. What's more, the adjacent market did not allow for pricing increases, several higher-volume stores had new competition, and the new image enhancements fell flat. All this occurred while the brand was experiencing a cyclical decline. What appeared to be an attractive multiple ballooned to a high single-digit multiple post-closing, putting not only the acquisition but the parent company at risk for a default. The buyer clearly had not done his homework and set himself up for a difficult situation. In this situation, the seller had agreed to a lower multiple from this buyer based on lower escrow requirements, no seller paper, and an all-cash deal. After one year, the post-close multiple didn't look so good.

In conclusion, it is vitally important to understand that using an EBITDA multiple to value a transaction can be a dangerous thing unless all the variables and nuances are properly factored into the equation. This is a classic example of, "It just isn't that simple." The EBITDA multiple can be a valid indicator of value, but only when used correctly. Don't let a myth become a miss. MUF

Dean Zuccarello, *CEO and founder of The Cypress Group, has more than 30 years of financial and transactional experience in mergers, acquisitions, divestitures, strategic planning, and financing in the restaurant industry. The Cypress Group is a privately owned investment bank and advisory services firm focused exclusively on the multi-unit and franchise business for more than 23 years. Contact him at 303-680-4141 or dzuccarello@cypressgroup.biz.*

BY JACOB GROSSHANDLER

10 Rules for Managing Franchisee Innovation

Develop a system-wide vetting process

Who is responsible for innovation? For many franchise concepts, innovation is the sole domain of the franchisor as it safeguards the brand's equity: "Do only things that I say, and do them exactly as the operations manual specifies."

Franchisor-led product innovation is most prominently seen in food-related brands in the form of the centralized test kitchen. However, franchisor-led product innovation often leaves an invaluable resource untapped: the franchisee. Think McDonald's Filet-O-Fish, invented in 1962 by franchisee Lou Groen to make up for slow Friday burger sales.

Also, despite the positives provided by franchisor-led product innovation, a brand runs the risk of becoming entrenched in its own singular manner of thinking—a competitive threat in the face of ever-changing consumer tastes.

So how does a franchise system unlock the profitable insights from franchisees without unleashing a Pandora's box of compliance issues and risk erosion of its brand equity? Our interaction with many franchisors on the subject suggests that the answer resides in placing boundaries around the *type* of product innovation allowed by franchisees. The following 10 rules provide a roadmap to unlocking the value of franchisee-led product innovation.

- **Rule 1: Stick to the brand's core.** No franchisee should be allowed to tamper with the core product set that defines the brand. The Big Mac is sacred to McDonald's and will remain untouched, and KFC's secret recipe still needs to be in every bucket of fried chicken.
- **Rule 2: Leverage existing inventory and the system's supply chain.** Franchisors should encourage franchisees to first consider ways to create products with existing inventory and equipment. This minimizes additional unit investment and training, ensures that the existing supply chain can be leveraged, and limits how far the new products can wander from the brand's core.
- **Rule 3: Filter ideas.** Not all ideas are good ones. Franchisors should establish preliminary metrics to measure the viability of ideas in a uniform and structured format. This will keep down the cost of evaluating product innovation, while empowering and encouraging franchisees to envision new, profitable revenue streams. It will also take the emotion out of determining whether a new idea has merit. Franchisees should be allowed to proceed with piloting new product offerings locally only after franchisor approval.
- **Rule 4: Innovation is not for everyone.** To avoid sidetracking new franchisees from learning the fundamentals, franchisors should limit the option to undertake product innovation to only franchisees in good compliance standing and with several years of operating experience. In most cases, this means a greater likelihood that multi-unit franchisees will be the operators encouraged to test new ideas.
- **Rule 5: Reinforce compliance.** Franchisors should establish and communicate clear guidelines for any variance in consistency and compliance. Testing new product offerings could mean a new ingredient in the pantry or crowding in the store, but compliance in all other metrics and procedures must be followed to ensure brand consistency.
- **Rule 6: Share the costs.** Operational constraints and inefficiencies in testing and introducing a new product could negatively affect a franchisee's operations and costs. This isolates the costs and risks of a new product launch, which could have value to the whole system. The question "Who should pay?" must be be clearly addressed up front as part of the procedures a franchisor uses for innovation.
- **Rule 7: Test and retest.** Franchisors should leverage their own test kitchen and company units to formalize and streamline scale and operational issues for a large product rollout. This shows that the franchisor is invested and has the best intentions for the entire system.
- **Rule 8: Leverage social media.** Social media is an invaluable tool that can be used to promote new products cheaply, as well as to collect real-time feedback on customer reaction. Subscriptions to social media aggregating tools have increasingly become more affordable; some cost less than $500 a year, putting them in reach of franchisees and franchisors.
- **Rule 9: Don't be afraid to pivot.** Innovation can be messy and unstructured and is not always successful. We all remember New Coke, right? If a new product clearly is not working, cut bait. To avoid costly mistakes, before launching a product with any scale, franchisors should track new products against pre-established KPIs and collaborate with franchisees to set targeted sales volumes, profit margins, and other operational metrics.
- **Rule 10: Promote franchisee success stories.** Focus should be placed on what made them successes by communicating the importance of compliance and consistency and their impact on sales and profitability. Franchisors also should reward successful franchisees with recognition and/or money.

By decentralizing product development while using a structured set of procedures and measures, revenue diversification can be achieved cost-effectively. In addition to expanding same-store sales, franchisee-led innovation will likely foster a new sense of partnership between franchisees and franchisor.

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