PEOPLE ■ INVESTMENT INSIGHTS ■ CUSTOMERS COUNT

Multi-Unit Franchisee

2014 MULTI-UNIT FRANCHISING CONFERENCE
APRIL 23-25 | CAESARS PALACE, LV

ISSUE II 2014

■ OUTSOURCED!
Do what you do best, sub out the rest

■ REWARD LOYALTY
Design a program that works for you!

■ MULTI-BRAND 50
Top operators ranked by size and brand

Unafraid of a Challenge

Rose Colarossi and family
pioneer new brands

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These figures represent the net revenue and operating profit margin for the 52 week fiscal year ending December 30, 2012, for all Restaurants that have submitted financials to the Company and have been open for 12 months as of the beginning of the 2012 fiscal year as published in Item 19 of our Franchise Disclosure Document. Of the mthirty three Restaurants included, five are Company owned and twenty eight are franchised. Net revenues have been included for all 33 of these Restaurants. Restaurant operating profit margin has been included for 32 of the 33 Restaurants as one Restaurant has not reported their financial results to the Company. Your individual financial results may differ substantially from the results stated in this representation. These results should not be considered as the actual or potential revenue or operating profit margin that will be realized by any other franchisee. We do not represent that any franchisee can expect to obtain this revenue or operating profit margin.

Multi-Unit Franchisee contents

ISSUE II, 2014

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Fast Casual Top 100 Movers & Shakers, 2013

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APPROVAL?
HOW DOES
TODAY
SOUND?

2014 Multi-Unit Conference Is Packed with Resources

Fellow Franchisees,

As you are reading this, we are putting the final touches on the Franchise Update 2014 Multi-Unit Franchising Conference.

If there were ever a case study as to the relevance of attending the MUFC, this is the year. Our country is faced with continued economic uncertainty and turbulence. To make matters worse, we could possibly be in one of the most difficult regulatory and compliance eras that I can recall. As franchisees, a great way to navigate these obstacles is to learn from other franchisees.

The MUFC is far and away the premier venue for the exchange of ideas, information, and learning about great new franchise opportunities. Throughout the recession, while various segments of the economy were decimated, franchising, albeit at a reduced rate, grew. In fact, some of the largest franchisees today made their biggest gains during the depths of the downturn. This proves that franchising is strong and very resilient.

The theme for this year is aptly titled "Planning for Growth." This is in recognition of the fact that sustainable growth is an outcome of a well-devised plan. The days of haphazard decision-making in franchising are gone as the stakes are far too high. To this end, this year's conference focuses on planning in the most important facets of business, human resources, marketing, and financing. We also recognize that these facets are very different at various levels of unit ownership. Therefore, for the first time, the MUFC will tackle these topics in a "track system" to ensure the highest degree of relevance to franchisees. Of course, any franchisee is free to attend any session they choose.

Another topic that franchisees need to take on is our role in advocacy. Traditionally, as entrepreneurs, franchisees "go with the flow." We create jobs, provide needed goods and services, support our local communities, pay our taxes, and just get on with it. However, we have reached a point where our elected representatives need to hear from us to prevent further damage to our economy because of unintended consequences of legislation. With the Affordable Care Act being the most prominent example of this, other equally significant issues on the legislative horizon can be quite harmful. An important session on franchising's role in helping better educate lawmakers will be presented at this conference.

I look forward to seeing all of you in Las Vegas, April 23–25 at Caesars Palace for the conference and for a great few days of learning, networking, and deal making!

Aziz Hashim
Chair, MUFC 2014

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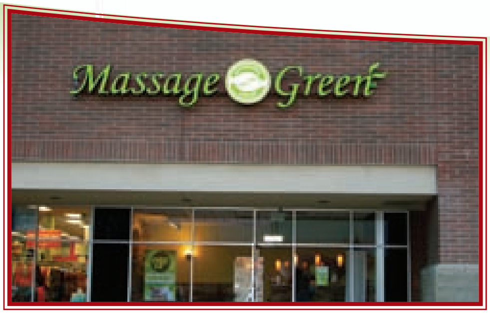

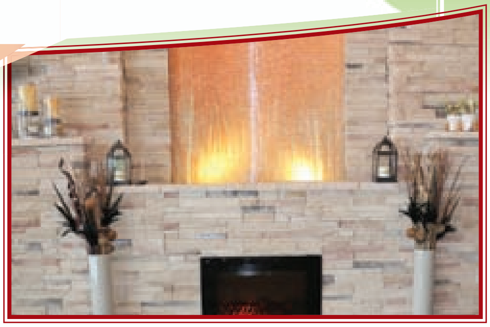

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2014 MULTI-UNIT FRANCHISING CONFERENCE

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***

✓ ONLINE *Multi-Unit Community Grows*

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

- New brand opportunities
- Networking opportunities
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- Exclusive interviews
- Operator profiles
- Financing resources

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✓ NEW ONLINE VIDEOS *EmpireBuilders.tv Expands*

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

✓ FRANCHISE OPPORTUNITIES

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

✓ RANKINGS *Check out our annual rankings*

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

✓ PRESS OFFICE

"Don't just survive, thrive!"

Franchise Update Media's *2014 Annual Franchise Development Report,* and the best-selling book *Grow to Greatness* by Steve Olson offer invaluable tips for franchise sales success and unit growth in today's economy. For ordering information visit ***www.franchising.com/franchisors/afdr.html*** and ***www.franchising.com/franchisors/growtogreatness.html***

✓ QUICKLINK

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

✓ THINKING OUTSIDE THE BOX

> "It was our first outlet and space for everything was an issue. So I said, 'Why can't we run nine separate concepts out of the same kitchen with one GM?' A few of my franchise friends had a fit, because it had never been done before, but after I explained that it would not interfere with their menus and concepts, we were able to get it done."
>
> *—Jack Hough on his 'aha' moment that led to a successful non-traditional franchising empire*

Multi-Brand Mavens

One brand won't do for these operators!

For many multi-unit franchisees one brand just isn't enough. They prefer to spread their risk across different brands, seeking diversity and economies of scale. And while the payoff can be substantial, it can be tough to succeed in this niche: they needed faith, persistence, and a solid infrastructure to make it happen.

These six hard-working operators represent different-sized franchisee organizations, and all have at least two concepts. Their stories are different, yet share common threads: a passion for great products and concepts, a customer-driven focus, an eagerness to provide jobs and career opportunities for their employees, and a burning passion to grow their business and serve their communities.

- **Rose Colarossi** is a high-energy multi-brand operator unafraid to embrace a challenge—and do whatever it takes to succeed. The New York native and former Curves franchisee relocated to Dallas 5 years ago because of her husband's job. First, the family opened an Egg & I Restaurant, then two more. Now they've teamed up with Mama Fu's Asian House, where they have one unit open and an agreement for 13 more.
- **Ahmed El-Hawary** grew up in the family business selling glass doors, screens, and garage doors. Twelve years ago, he became the youngest franchisee of Firehouse Subs, and today operates four units. And last December, he opened a $3.5 million Golden Corral he built from the ground up. Recently, when the opportunity to acquire eight Sears Outlets came along, he didn't hesitate and signed on for 8, all in Florida.
- **Jack Hough** is a food court pioneer. In 1996, faced with the problem of which restaurants to place in a Georgia shopping mall, he asked, "Why can't we run nine separate concepts out of the same kitchen with one GM?" Franchisors didn't take to the idea immediately, but the model worked. Today his company, MSE Branded Foods, is in a dozen states in 14 airports, outlet malls, universities, and other non-traditional settings.
- **John Mulherin** is a former investment bank CEO who "flunked retirement." After 35 years in financial services, he retired and moved from his native Chicago to South Carolina. Itching for something to do, he researched consumer trends and discovered a growing need for auto care and repair. "My idea specifically was convenience, which translates into one-stop auto care," he says. Today his Car Pros Plaza One-Stop Auto Care business offers customers three brands: Meineke, Maaco, and Econo Lube.
- **Steve Reitz** and his wife and business partner Joanne have been eyewitnesses to the tough market of the past four years. When we last profiled him (2009, Q4) he had seven Supercuts in Florida and had just opened his first Five Guys Burgers and Fries in Michigan. Despite the economy, they've managed to open two more Five Guys locations in Michigan (he grew up in Detroit) and added one more Supercuts in Florida. Today he's focused on delivering it "perfect every time."
- **Ted Torres,** who grew up in the hotel business under the wing of his father, was operating a Hilton Garden Inn and had inked a development deal to open five Microtel Inn & Suites locations when we last profiled him (2009, Q1). In 2010, after his father—his mentor and business partner—retired, Torres formed a new company, Caerus Hospitality. Today he operates four Microtel Inn & Suites by Wyndham, a Baymont Inn and Suites by Wyndham, and will soon open a $55 million, 171-room TRYP by Wyndham boutique hotel in the heart of downtown Austin.

For the seventh year, we present our annual Multi-Brand 50 Rankings, with the data supplied by research firm Frandata. The lists rank the country's largest 50 multi-brand franchisees (and their brands), plus a separate list of the 25 most popular brands they operate. See pages 52 and 54.

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BY DEBBIE SELINSKY

Egg-ceptional Operators!

She once wanted nothing to do with restaurants

Rose Colarossi, a high-energy multi-unit franchisee from Frisco, Texas, likes to open remarks about her franchising career with this question: "Which came first: the mama or the egg?"

In this case, the egg—as in The Egg & I—came first with Colarossi and her husband, Rob, who today own three in the North Dallas area. Recently, along with partners, they signed on as area developers for Mama Fu's Asian House. They opened their first unit last October and have committed to opening 13 more in Dallas and Collin counties in Texas.

Colarossi admits that she was a reluctant restaurateur at first. "When my son tried to tell me about his work at The Egg & I during college, I told him running restaurants is the hardest job there is and one that I, personally, wanted nothing to do with," recalls the New York native and former Curves franchisee, whose past

NAME: Rose Colarossi

TITLE: Owner/partner

COMPANY: MFDC Partners

NO. OF UNITS: 3 The Egg & I, 1 Mama Fu's Asian House (with a contract for 13 more)

AGE: 48

FAMILY: Husband, 4 children, 2 grandchildren

YEARS IN FRANCHISING: 12

YEARS IN CURRENT POSITION: 6-plus

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David Demer
Great Clips Multi-unit Franchisee and Massage Heights Franchise Owner

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PERSONAL

First job: I was a head cashier and assistant bookkeeper at a local supermarket during high school.

Formative influences/events/key accomplishments: Opened and operated a very successful Curves franchise for 10 years. This allowed me to be home when my kids were home from school and to offer something of value to women.

Biggest mistake: Not moving to the town where my Curves franchise was located. My husband traveled Monday through Friday and we had no family support system in Texas. It would have made life a whole lot easier for all of us.

Smartest mistake: Getting into the restaurant business. While our oldest son Ryan attended college at Colorado State University, he worked for the husband-and-wife team that founded The Egg & I. Initially, I wanted nothing to do with the restaurant business, but I was finally convinced and Rob and I purchased our first The Egg & I restaurant in July 2008. We minimized our risk by having Ryan as the GM and operations specialist. Here we are six years later, with Ryan and his wife now buying into the business with us, and we just opened our third location.

Decision I wish I could do over: Again, I wish that we had moved to the town where my Curves was located. It was a long commute, my children were small, and my husband traveled. I will forever be indebted to the incredible staff I had at Curves. I could not have done it without them.

Work week: I wish I could say that it’s always a five-day work week, but that’s just not possible right now. We opened Mama Fu’s in October 2013 with our partners, and then our family just opened our third Egg & I restaurant on February 17. My 17-year-old will be home for only a little while longer, and she still enjoys doing things together. I have to take advantage of this time with her. I also believe that our bodies and our minds need rest in order to perform at our best.

Typical day: There is no such thing in the restaurant business, especially when you are opening new locations. Any day could include dealing with emails, Facebook entries, potential client follow-ups, local store marketing, networking and networking follow-ups, staff meetings, fundraisers, licenses, bank meetings, chamber meetings, meeting with potential catering customers, staff issues, meeting with the builder or a vendor, touching tables at the restaurants to receive feedback from our guests, decisions regarding advertising, sponsorships, and, of course, always looking at the end-of-day sales reports. It’s never boring.

Favorite fun activities: I love to read. I belong to a book club that forces me to make the time. I also love getting together with my gal pals. I enjoy power-walking outdoors, paddle boarding, theater, and travel.

Exercise/workout: I have gotten into doing the Bar Method, which uses a ballerina bar to elongate and strengthen your muscles. I like that there is no pounding involved. But if there were a Curves nearby, that is where you would find me. It’s the best workout in the shortest amount of time.

Favorite tech toys: iPhone, iPad, iMac, Nook, Kindle—when they’re behaving.

What are you reading? I just read *Orphan Train,* a novel by Christina Baker Kline. It’s a fascinating story based on historical facts and firsthand accounts of Depression-era children, mainly from Ireland and Poland, who were sent to cities in the Midwest and taken in as foster children or indentured servants. Today there are more than 1 million descendants of the Orphan Trains. I had no idea this was part of our country’s history.

Do you have a favorite quote? 1) Treat others as you want to be treated. If that doesn’t work, treat them the way you would want your children treated. 2) Look to the left and then to the right and someone has bigger problems than you do. 3) It is what it is.

Best advice you ever got: My mother told me that if I had to choose between spending quality time with my kids or worrying about having the house look perfect, the house could wait. If I could wait to answer emails until the kids were asleep, that’s when I should do it. In other words, our children are our first priority and our time with them is precious. The best business advice came from our son Ryan. I went to use a to-go cup early on and he pointed out how much each cup and lid cost us. We then talked about the cost of using a paper towel versus an expensive napkin, and how over time, it really does add up. I’ve learned that you need to stop money from leaving your restaurant in terms of waste.

What gets you out of bed in the morning? My kids, my faith, our dog, and our businesses.

What’s your passion in business? I love meeting new people and helping people. I believe that we can all learn from one another. I love introducing people to our concepts because we truly have fantastic food and service. I also love training the staff on customer perception. It’s funny how long someone may have worked in the restaurant industry and not ever been told why things are done a certain way.

How do you balance life and work? Sometimes I balance things better than others. Most important, my kids always know that they come first. For me it truly is a balance of family, faith, hard work, play time, exercise, eating right, down time, friendships, and giving back.

Last vacation: Last August in Aruba with our 17-year-old.

Person I’d most like to have lunch with: My mother. She passed away suddenly last May and we were very close.

FRANCHISEES DON'T NEED CAPES TO BE SUPERHEROS

Chicago area Checkers multi-unit franchisee, Aby Mohamed, has the qualities of a superhero. He uses his superpowers to make a big impact. His employees, business partners, and customers would agree. Aby loves what he does and is passionate about changing other people's lives and helping them succeed to reach their goals.

> **HIS ROAD TO SUCCESS WASN'T ALWAYS AN EASY ONE.**

Born in Mauritania, Africa, he moved to the US in 1999 to help support his family back home. Starting as a gas station cashier, he worked hard and worked his way up. "I never give up," Aby said. "My boss believed in me and gave me an opportunity, a franchise partnership. It was critical at the time."

> **"WHAT IS MOST IMPRESSIVE ABOUT CHECKERS IS THAT THEY WILL DO EVERYTHING IN THEIR POWER TO HELP FRANCHISEES SUCCEED."**

Over the past 15 years, Aby has built an impressive portfolio, including 18 gas stations at one point. Now he is a multi-unit owner of several restaurant franchises, but finds their potential is limited compared to Checkers.

"The reason I chose Checkers is that the brand is very well known in the Chicago market. It opened more opportunities to grow in areas that I couldn't with my other franchises," Aby said. "Checkers is seeing huge numbers now. And it's because customers love the product, the quality, and the franchise — they take care of their customers."

Aby looked into 50 to 60 concepts and knows what it takes to be successful. Checkers sales-to-investment ratio is double the industry average.*

"For people looking to add another franchise to their portfolio, I encourage everyone to take a good look at Checkers," Aby said. "I am expecting to have a great return on my investment. You would have to invest twice the money for another [comparable food] franchise to achieve the same results as you would with Checkers."

> **"WE ALL LIVE FOR MONEY; THAT'S THE BOTTOM LINE. I WANT TO USE CHECKERS TO MAKE MONEY NOT ONLY FOR MYSELF, BUT ALSO FOR MY TEAM."**

Aby said, "What is most impressive about Checkers is that they will do everything in their power to help franchisees succeed." The team will help franchisees maximize the potential of their site and help franchisees grow in ways many other franchisors won't always do.

"We all live for money that's the bottom line. I want to use Checkers to make money not only for myself, but also for my team. My ultimate goal is for my team not only to succeed, but to grow in the system and eventually become franchisees," Aby said. "I would like the legacy of leaving behind – helping as many people as possible; people that are like me or better than me."

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includes working as a behavior modification therapist for autistic children and a marketing research coordinator. But her son Ryan was persuasive, and today the woman who wanted nothing to do with restaurants co-owns four, with 13 more in the works.

In July 2008, she and her husband Rob, with son Ryan as general manager, opened their first Egg & I Restaurant in North Dallas, where they'd moved some years before to accommodate Rob's job. In October, the market crashed and "people stopped going out to eat," Colarossi says. "We started seeing our sales plummet. We had no brand awareness at all in our area, and it seemed there was so much stacked against us."

She rallied, using all she'd learned at Curves. "It was guerilla marketing. We knocked on doors with samples and introduced ourselves, we networked, we did everything we could think of to let the area know about The Egg & I," she says. The work required to get the restaurant off the ground was so intense that in 2012 Colarossi had to sell the Curves she'd purchased 10 years before.

Based on what seemed at times to be Colarossi's sheer will, the restaurant began to gain ground. Today, she co-

> "I told my son running restaurants is the hardest job there is and one that I, personally, wanted nothing to do with."

MANAGEMENT

Business philosophy: Produce a great product, keep your establishment clean at all times, and give the customers great service and a great experience. At the end of all that, make sure you give back.

Management method or style: This goes back to the Golden Rule. We have a culture of respect: respect for one another and respect for the customer. I believe we should try to lift people up, not push them down. We also treat our staff like they are a part of our family. We are very fair, but they know we are running a business and there are, as in all of life, natural consequences.

Greatest challenge: Realizing that some employees are just not cut out for the restaurant business, and that this is all right as long as you both figure it out before too much damage has been done.

How do others describe you? Very friendly. I don't believe in passing another human being without acknowledging them. Saying hello to someone is so easy and can really make a difference in their day and yours.

One thing I'm looking to do better: My friends and staff joke that there is an electrical force field around me. My iPhone and computer and emails are always giving me issues, so I'm working on that.

How I give my team room to innovate and experiment: We have surrounded ourselves with great management, and as a team, we are always looking for ways to improve both front and back of house experiences. By talking to the guests and watching the restaurant from the guest's perspective, you learn a lot about what is working and what is not.

How close are you to operations? Our son handles The Egg & I Restaurants along with our GMs and KMs [kitchen managers]. At Mama Fu's, we have a strong GM and KM, and one of our partners works in day-to-day operations. The remaining partners have specific roles based on their area of expertise. Though I've had to be hands-on in operations at various times, my strengths are in local store marketing/networking, customer relations, and guest perceptions.

What are the two most important things you rely on from your franchisor? A successful model and the benefits that come from scale as we grow. Their model has been proven to work, and we expect to learn from and build on their experiences as well as our own.

What I need from vendors: Reasonably priced quality products, quick response times, and consistency.

Have you changed your marketing strategy in response to the economy? How? Absolutely. When we opened our first Egg & I in July 2008, we were an unknown brand. The stock market crashed 2½ months later. Most people stopped eating out, and the few that continued stuck with brands they knew. We had to rely on guerilla marketing tactics—knocking on doors, handing out menus, offering catering, attending networking meetings, starting our own network meeting, Facebook, etc. The Egg & I restaurants were not in the catering business. However, as a business owner, you must adapt and do what's necessary to keep the business thriving and food on your family's table. We continue to use these tactics in growing our Mama Fu's brand. Here we are, the first Mama Fu's Asian House to open in the Dallas area and people are not sure what we are about. We have had this challenge before, and thankfully we can use our experience to tackle a lot of these issues.

How is social media affecting your business? We feel it is a critical component and work with multiple resources to ensure we continue to have a pulse on guest experience.

How do you hire and fire? We hire and fire based on skills and attitude. It has been our experience that most skills can be taught, but attitude cannot.

How do you train and retain? We are lucky because our franchisor training programs are very solid. Of course we continuously train and cross-train in house by assigning lead trainers in each job segment. Because we treat our staff with respect and never expect anything from them that we would not do ourselves, it's been easier to promote tenure.

How do you deal with problem employees? This typically is handled by the GM.

Fastest way into my doghouse: It takes a lot. However, four things will land you in the doghouse quickly: lie, steal, bully, or manipulate.

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owns and successfully operates three of the breakfast and lunch restaurants, using her people skills and intuition to create a "culture of respect."

When the Colarossis began searching for a second food brand (at that point, she says, they would not have considered another industry), they teamed up with partners Daniel Avery, head of operations, and Echo Liu, who handles finances, to study consumer trends.

"Asian food is definitely the winner as consumers look for healthy dining options that are both fresh and bold tasting," says Colarossi. "Mama Fu's is the only Asian-inspired concept in the marketplace that offers a contemporary flex-casual setting, transitioning from quick counter service at lunch to a full-service experience at dinner. Our Mama Fu's in Frisco offers guests dine-in, delivery, take-out, catering, and free meeting or party rooms, complete with audiovisual, free Wi-Fi, and a beautiful patio."

When they opened their first Mama Fu's in late 2013, they did it again without brand recognition in the market, so out roared the Colarossi guerilla marketing team. "Things are going very well, and we're looking carefully for the right locations for the rest of the Mama Fu's we'll be building," says the mother of four, adding that while she loves her work, she still puts her children and husband first. MUF

BOTTOM LINE

Annual revenue: $1 million-plus

2014 goals: To grow both brands in their marketplace, to be the best in class in terms of food quality, service, and experience, and of course, to increase revenue.

Growth meter: How do you measure your growth? We want to exceed the industry average or be best in class. Of course we look at P&L, labor costs, food costs, etc. However, revenue—money in the bank—is what pays the bills.

Vision meter: Where do you want to be in 5 years? 10 years? I would like to see us expanding both brands as quickly as revenue, real estate, and funding allows; 20-plus stores would be great.

How is the current economy affecting you, your employees, your customers? Customers are looking for a quality product for a fair price. They also want to know they are appreciated. They can spend their money anywhere they want, and they choose to spend it in our restaurant. We make sure they know we appreciate that.

Are you experiencing economic growth in your market? Yes, North Dallas is booming. With that amount of growth comes a huge number of restaurant choices for our consumers.

What did you change or do differently during the economic downturn that you are continuing to do? We plan to stay on course using the success model of our franchisor, but we are always willing to adapt to consumer demands.

How do you forecast for your business? Being a franchisee means we have a model that the franchisor has assured us is successful. We use the P&Ls they provide and go from there. We also use best practices of past and fellow owners.

Is capital getting easier to access? Why/why not? Yes. The longer you are successful in a particular business, the more receptive the banks seem to be. However, the restaurant business has the privilege of receiving the most scrutiny of all businesses, so you must also have a great debt-to-equity ratio.

Where do you find capital for expansion? Local banks, investors, SBA.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We have used local banks because we like to develop a relationship with those we are banking with.

What are you doing to take care of your employees? We continue to make sure we are offering competitive programs as well as a different culture in how we treat our employees.

How are you handling rising employee costs (payroll, healthcare, etc.)? Like everyone else, we are trying to grow organically and reduce costs where feasible without hurting the quality of service, food, and experience.

How do you reward/recognize top-performing employees? By treating our employees as family members. For example, we recently held a fundraiser for an employee who was diagnosed with late-stage cancer and needed help with medical expenses. We constantly praise our employees for good work and we promote from within at both our brands.

What kind of exit strategy do you have in place? These are exciting times right now. We truly are focused on growth and more growth. With that said, we'll be looking at many exit strategy options as time goes on.


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BY DEBBIE SELINSKY

Branching Out

Young operator adds Sears to his two food brands

Conventional wisdom says it makes sense for multi-unit franchisees with food brands to stick with food as they expand. Ahmed El-Hawary doesn't see it that way.

El-Hawary, who worked in his family's restaurant as a youth, operates four Firehouse Subs. When he opened his first 12 years ago, he was the brand's youngest franchisee. Last December, he opened his first Golden Corral restaurant, a $3.5 million project built from the ground up.

But when the 34-year-old—who also worked in his father's business selling glass doors, screens, and garage doors—had the opportunity to acquire eight Sears Outlets stores, he didn't hesitate.

"It was an opportunistic choice. We're the third franchisees to come in and do the Sears Outlets, which are now outside the Sears brand but still have that strong name behind them," he says. "Most of what we do is sell appliances at 20 to 70 percent off retail. We don't own the inventory. Sears owns it and gives us commission on sales. It's a great business model—an old company with a new business model. It's been exciting and the fastest-growing segment in our company. To build Golden Corral restaurants takes more time because of the large footprint, so those won't come on as fast as the Sears Outlets. We'll continue to grow our Firehouse brand, which is a great brand with great guys, as opportunities arise."

El-Hawary was born in Cincinnati to Egyptian parents and grew up in Merritt Island, Fla. He says he doesn't see himself as a restaurateur. "I'm a businessman. And once you understand the fundamentals of business, it doesn't

NAME: Ahmed El-Hawary

TITLE: Owner/CEO

COMPANY: Zeal Group

NO. OF UNITS: 4 Firehouse Subs; 1 Golden Corral (and 1 under development); and 8 Sears Outlets (all in Florida)

AGE: 34

FAMILY: Father, mother, and two sisters

YEARS IN FRANCHISING: 12

YEARS IN CURRENT POSITION: 12


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matter if you're selling food, appliances, or widgets. It's all the same: You take care of your customers, pay your bills, and hope to make a little money at the end of the day."

He says his three brands are extremely different from one another. "One is a buffet restaurant based on volume, the other is a restaurant with an a la carte menu with a totally different volume, budgets, and core marketing, and our third brand is a retail franchise. The differences don't matter."

El-Hawary, who earned a degree in business management at the University of Central Florida and bought his first piece of residential real estate when he was 21, says he's always liked business—especially acquisitions—and real estate. "I had an entrepreneurial family, but as long as I can remember, I've always been interested in business. When you like something, you focus more energy on it and become successful," he says.

> "I wish I had gotten involved in networking and attending business conferences earlier in my career."

When people ask him how he juggles the three brands, he says, "It comes down to Business 101. Ask yourself: What's the game plan? Then you have to get people to understand your concept and to believe in it. And you're held accountable for it. The beautiful thing about franchising is that we have all these franchisors and franchisees out there that can help us benchmark how we're doing against them."

El-Hawary, owner and CEO of Zeal Group in Orlando, says that his businesses are doing well financially, but he's reorganizing the company to ensure that procedures throughout his brands are consistent.

His best advice for would-be franchisees? Network and attend conferences with other franchisees, and embrace social media and technology in growing their business. "You have to get used to change, which is constant. Whatever you're doing is going to change, and you have to go with it." MUF

PERSONAL

First job: I worked in my family's restaurant growing up.

Formative influences/events: Playing competitive football and owning my first real estate property at the age of 21—a duplex I lived in and then leased. Opening my first business with Firehouse Subs at 23, as their youngest franchisee at the time.

Key accomplishments: I don't spend much time thinking about this. There are so many younger than I who have accomplished more. But I'm extremely blessed, and I work hard. I guess my biggest accomplishment was when I opened my Golden Corral on Dec. 12, 2013. I had no idea I'd one day build a $3.5 million project from the ground up.

Biggest mistake: All my mistakes were lessons, just higher-priced than others.

Smartest mistake: Getting involved with Firehouse Subs when they had only 30 stores. These guys are humble and smart. They really took a chance on me.

Decision I wish I could do over: I wish I had gotten involved in networking and attending business conferences earlier in my career. Now I go to Las Vegas every year for the Multi-Unit Franchising Conference. It's inspirational to gain exposure to so many different people with different backgrounds and stories about how they overcame obstacles.

Work week: 65 hours, but always reachable as needed.

How do you spend a typical day? Reviewing the status of current businesses, communicating with the leadership team, and visiting the stores.

Favorite fun activities: Spending time with family and friends. Watching football with friends, going to the Super Bowl, shooting at the gun range. Believe it or not, I enjoy talking about business and that whole network atmosphere.

Exercise/workout: Not as often as I would like (football injuries).

Favorite tech toys: Smartphone.

What are you reading? Business and industry magazines and publications.

Do you have a favorite quote? "If it were easy, everyone would do it."

Best advice you ever got: Set long-term goals and outline the steps necessary to achieving them, then work hard as heck every day to get there. If done properly, there is no limit to what you can accomplish.

What gets you out of bed in the morning? To progress every day and just the fear of failure itself.

What's your passion in business? I enjoy evaluating risk/exposure, mapping out a plan, executing, and dealing with the consequences or the rewards.

How do you balance life and work? Not very well right now since we're in the process of reorganizing the business (not a financial reorganization, just making sure all our procedures are consistent throughout the different brands).

Last vacation: December 2012 to Egypt to see family. I still have plenty of aunts, uncles, and cousins there.

Person I'd most like to have lunch with: Warren Buffett. I don't consider myself a restaurateur—I'm a businessman. So I admire the fact that he has consistently invested in an array of different companies and made money in all of them, and that he has been able to own companies and operate them through different people. He's a master of that. The biggest thing, and an ability I would love to possess, is that he sees value in things others don't.

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MANAGEMENT

Business philosophy: Set high standards and you will get excellent results. Ask yourself how you can get it done first. Think outside the box. See value where others don't.

Management method or style: Select high performers and empower them.

Greatest challenge: Becoming more and more productive every year while maintaining growth.

How do others describe you? Intense, high-energy, fair, and consistent.

One thing I'm looking to do better: Build better back office infrastructure and have a good work/life balance.

How I give my team room to innovate and experiment: I welcome innovation and feedback. However, I expect that our procedures are consistent throughout the different brands.

How close are you to operations? Extremely close.

What are the two most important things you rely on from your franchisor? I'll give you three: brand marketing, buying power, and operational systems.

What I need from vendors: Consistent products at the greatest value possible.

Have you changed your marketing strategy in response to the economy? How? We constantly change marketing strategy within the brand guidelines to achieve the desired results.

How is social media affecting your business? It's becoming the fastest-growing marketing vehicle. You either get on it or you will be left in the dark.

How do you hire and fire? Hire as carefully as possible, and fire based on quantifiable, indisputable information. Keep in mind that our employees are also our customers.

How do you train and retain? My constant frame of mind is to sharpen the saw.

How do you deal with problem employees? Getting the right people on the bus is equally as important as getting the wrong people off the bus. If I'm called in on something like this, I like to coach them and see how they handle it. You have to get to the root cause of the problem. I believe in helping people. Everybody has to feel they fit in. If they don't, they'll cause problems. Most people want good leadership and communication and they want to know what is expected of them. I'd say there's 10 percent who do not want to follow the rules. Most people, when treated with respect, understand that even though this may not be exactly what they will be doing in the future, they can learn basic skills of responsibility and accountability that will help them in the future, whether they're working for me or for a Fortune 500 company.

Fastest way into my doghouse: Lying, stealing, and cheating.

BOTTOM LINE

Annual revenue: Prefer not to disclose.

2014 goals: To grow quality assets and build a more streamlined back office infrastructure.

Growth meter: How do you measure your growth? Comparing ourselves to yesterday.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, I'd like to have 50 units. In 10 years, I want to have a strong company that is more profitable than it was in the ninth year.

How is the current economy affecting you, your employees, your customers? Since people are more careful about their spending now, it's even more important to provide customers with the greatest service, so the perception of value is greater.

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? Watch every penny and examine each line item on the P&L.

How do you forecast for your business? Based on last year's numbers, trends of market, industry, and brand.

Is capital getting easier to access? Why/why not? Yes, banks are seeking good, sound loans.

Where do you find capital for expansion? Institutional banks.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We haven't used private equity. We normally use local or regional banks, as they understand our needs and are able to accommodate them.

What are you doing to take care of your employees? We give management the opportunity to earn more income by increasing revenue and/or profitability.

How are you handling rising employee costs (payroll, healthcare, etc.)? It is always challenging and difficult, but it is an industry problem that we all deal with. Inevitably, the increased costs are unfortunately reflected in the end price.

How do you reward/recognize top-performing employees? We are working on some new programs that will recognize performers weekly and monthly.

What kind of exit strategy do you have in place? I am currently in growth mode and not considering any exit strategies at this time.

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BY DEBBIE SELINSKY

Brandmaster Jack

Food court pioneer juggles multiple brands masterfully

In 1996, Jack Hough was trying to figure out which restaurants to place where in a somewhat limited space at the North Georgia Premium Outlets mall.

"It was our first outlet, and space for everything was an issue," says the Alabama native. "So I said, 'Why can't we run nine separate concepts out of the same kitchen with one GM?' A few of my franchise friends had a fit because it had never been done before, but after I explained that it would not interfere with their menus and concepts, we were able to get it done."

Over the years, Hough has extended that consolidated food court model into 14 airports, outlet malls, universities, and other "non-traditional" settings across 12 states. Today his company, MSE Branded Foods, represents more than a dozen national franchise brands, including Arby's, Sbarro, Subway, Steak 'n Shake, and signature concepts such as JJ's Sports Bar & Grill and the Buckhead Grill.

When Hough explains how all his brands work together, he makes it sound simple. He says the cooking and presentation of most of his brands are done ahead of time. "The only thing we have in the kitchen is prep. That really streamlines things," he says. "If I brought in a con-

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cept with a kitchen in the back room, that could be problematic, but we have operated licensed Chick-fil-A units in a consolidated format by making accommodations in the kitchen."

When considering additional brands, Hough says that instead of looking at the hot new concepts, "We decide what type of food we need for a particular location. Each of our locations is different. Even if we're talking about regional airports, we can be talking about one that is business-focused and another that's a tourist airport. We select concepts based on what we perceive consumer demand to be."

Another factor that makes this model so successful is that restaurants in airports and malls have a built-in clientele. "We don't have to generate customers through special marketing. They are generated for us," says Hough. The same is true at universities, where students supply a steady stream of customers.

Nearly 20 years after his first consolidated food court model, however, everyone's gotten in on the action. "Every location we look at, we're competing with somebody. You win some and you lose some. If you look at nine or 10 locations, you may end up with one or two," Hough says.

His company, based in Gainesville, Ga., must remain nimble, he says. For example, since 9/11, MSE employees who work in the six regional airports must undergo TSA background checks and wear special identification badges.

MSE, which has found its niche—created it in fact—strives to maintain the quality of the franchised product, says Hough. "Everything runs so the brand integrity is protected, but behind the line is a shared functionality. The various brands share sinks, coolers, prep space, and dishwashing facilities."

In addition to his franchised brands, Hough is especially proud of his signature brands. For example, Buckhead Grill specializes in top-quality Black Angus beef burgers. "We must have tested 40 different suppliers to come up with the best burger on the market," he says.

NAME: Jack Hough

TITLE: President and founder

COMPANY: MSE Branded Foods

NO. OF UNITS: 5 Caribou Coffee; 4 Jump Asian Express; 4 Sbarro; 4 Villa Fresh Italian Kitchen; 3 Subway; 3 Green Leaf Café; 3 Bananas; 2 Arby's; 1 Cinnabon; 1 Steak 'n Shake; 1 Auntie Anne's Pretzels; 1 Freshens Yogurt; 1 Jamba Juice; and 1 PJ's Coffee. Signature concepts include JJ's Sports Bar & Grill, Buckhead Grill, Gateway Grille, and Blue Ridge Bakery

AGE: 65

FAMILY: Son, Brandon

YEARS IN FRANCHISING: 23 as an operator

YEARS IN CURRENT POSITION: 28. I worked signature concepts at first, including Main Street Eateries, which is where MSE comes from

PERSONAL

First job: I've worked since I was 11—paper routes, Western Union, and in a bakery between college semesters.

Formative influences/events: In any business, you must have the ability to read and understand financials. My nine years in banking gave me great insight into how to run a business.

Key accomplishments: I sit back and look at the number of concepts we run and the geographical spread, and I wonder how we got where we are. Achieving the structure of the company over the years, and now with more than 700 employees, has been gratifying.

Biggest mistake: I made a couple of location selections that turned out to be bad choices.

Smartest mistake: We did a food court in the Opryland Hotel in 2001–02, and it turned out we had five or six concepts, including Chick-fil-A. The court exceeded our projections by almost double. It did phenomenally well and was so different—in a good way—from how we read the location.

Decision I wish I could do over: I try not to look back.

Work week: Five days a week, usually 10- to 12-hour days, plus travel to visit our locations.

How do you spend a typical day? If I'm in town, I start my day with meetings and go to 5 or 5:30 p.m. My weeks get broken up by travel. I'm usually traveling every other week, doing lots of business development. We have business in 12 states, from New Hampshire to Daytona Beach.

Favorite fun activities: Golf, time at the beach.

Exercise/workout: Cardio work, weights, Pilates.

Favorite tech toys: iPad.

What are you reading? I read trade magazines, but for pleasure I love to read history, Civil War, and World War II books.

Do you have a favorite quote? No.

Best advice you ever got: My father used to say, "Worry about things you can do something about and let the rest go."

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

What's your passion in business? I want things done right. I want our personnel to look right, to treat our customers right, and to serve the best food. I'm a bit of a perfectionist.

How do you balance life and work? I work hard, but I have a condo near Destin, Florida, and when I can I go there and relax. I still use technology to stay in touch from there.

Last vacation: The beach.

Person I'd most like to have lunch with: Bill Gates. I like him personally, and I like the way he conducts business.

MANAGEMENT

Business philosophy: Again, I am a little OCD about what the stores are doing and what they look like.

Management method or style: I'm a combination of tough and easygoing. When I see things I like, I'm the nicest guy in the world.

Greatest challenge: In my position, it's finding locations that work right for our company and meet our criteria. You have to do a lot of fishing and throwing them back before you catch the right one.

How do others describe you? They tell me I work too hard, that I'll never quit working. I have worked since I was 11 years old, and between working, the military, college, and this company, I've never stopped.

One thing I'm looking to do better: I always try to improve what we do as a company. There's always room for improvement in how we do our jobs.

How I give my team room to innovate and experiment: I don't micromanage people. I'm a quiet manager as long as everything is okay. I give them a lot of rope to do what they want. If I see something that's a problem, I will get involved.

How close are you to operations? I keep up by reading reports. If I see something I don't like or understand, I get the VP of operations up to talk about it.

What are the two most important things you rely on from your franchisors? It's important that they keep our products fresh and on the cutting edge, and we depend on them to do inspections to ensure our personnel are preparing the food right.

What I need from vendors: We need products to come in on time.

Have you changed your marketing strategy in response to the economy? How? We don't do much marketing because most of our locations are in what we call non-traditional environments, like airports and outlet malls. We don't go after people—they're generated to us.

How is social media affecting your business? We don't use it much for the same reason we don't do much marketing. Some airports have websites, and it's helpful to see positive comments.

How do you hire and fire? Each location does its own hiring and firing.

How do you train and retain? Each of our unit managers is trained by the franchise concepts they operate. Our operations team is constantly visiting the units and conducting staff training.

How do you deal with problem employees? Generally, communication is the best approach. If you deal with people out of respect, you can resolve most problems head-on.

Fastest way into my doghouse: If someone doesn't do what they told me they would.

BOTTOM LINE

Annual revenue: $30 million to $40 million.

2014 goals: We like to get one or two new locations each year. That's how we grow, although that's not always under our control because of the environments in which we work.

Growth meter: How do you measure your growth? We look at growth on two levels. First, did we add new units to our portfolio? Second, and just as important, we closely track same-unit sales against the previous year.

Vision meter: Where do you want to be in 5 years? 10 years? Slowed down. In 5 years, I'd like to be involved in the day-to-day business, but in 10 I'd like a more passive role.

How is the current economy affecting you, your employees, your customers? The current economy is better than 2008 in every location we have. Now we're getting back to pre-2008 numbers.

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 right-sized where we needed to. When volume drops, we have to adjust our labor force. We're computerized and sophisticated in our labor and food cost management. We watch them constantly, daily.

How do you forecast for your business? We do budgets each year in November and December. We go to each location, get out our crystal ball, and do the best we can.

Is capital getting easier to access? Why/why not? It's about the same.

Where do you find capital for expansion? Historically, we've used private investors.

Have you used private equity, local banks, national banks, other institutions? Why/why not? For 20 years, we've had a network of private investors we use. I have borrowed from local banks on a personal basis, but the majority of our funds comes from our investors.

What are you doing to take care of your employees? We offer a comprehensive benefit package, including insurance, paid vacation, and retention bonuses. We also have a bonus system for all of our management team members. Our key people share in ownership, which is something you have to do to retain good people.

How are you handling rising employee costs (payroll, healthcare, etc.)? It's a constant work in process, a constant challenge. We try to project ahead of ourselves and make adjustments as needed.

How do you reward/recognize top-performing employees? Bonuses, monetary awards, and company-wide recognition.

What kind of exit strategy do you have in place? I realize that in the next few years I have to bring in someone younger who knows how I think and shares the same goals and objectives.

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BY DEBBIE SELINSKY

Banking on Success

Retired banker opens 3-brand car care center

John Mulherin, a former investment bank CEO, likes to say he flunked retirement. "I believe that as people age, they have a decision to make," he says. "That decision is: Am I going to allow myself to be put on the shelf, or am I going to put myself in a position to stay engaged and challenged?"

After 35 years in financial services, banking, and money management, Mulherin, a Chicago native, retired in his 50s and moved south to South Carolina's Charleston area. Three years ago, he decided, "I'd like to learn a new industry," he says.

"I looked at consumer trends and observed that one of the most pervasive trends is how disappointed and challenged most consumers feel about the simple act of getting basic car service and maintenance. To me, that is a tremendous business opportunity," he says. "I believe we need to improve the customer experience, and my idea

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specifically was convenience, which translates into one-stop auto care." Add to that a time when the average car is 7 to 7½ years old, the post-recession consumer conservatism that has people preferring to live without car payments, and Mulherin was convinced this was a good industry to enter.

He signed on with Driven Brands, choosing three brands for his one-stop auto care center in Summerville, S.C., Car Pros Plaza. He chose Meineke for mechanical work, Maaco for painting, and Econo Lube for quick lube. "Putting all our capabilities under one roof saves people time and allows the business to create lifelong relationships," Mulherin says.

Three years in, he's pleased with how things are going. "We have one of the highest car counts in the Meineke chain and high Maaco estimate counts. Our customers like the idea of a one-stop auto care center," he says, and he plans to open several other centers in the Greater Charleston area.

Mulherin, a self-described serial entrepreneur, was a Gloria Jean's Gourmet Coffee franchisee during the 1980s coffee craze, and in the 1990s was a co-owner, with his wife Lynn, of one of the largest alpaca farms in the Midwest.

He attributes his deep-seated fascination with all aspects of business in part to his work with Harold Welsch, a DePaul University Professor who started the na-

NAME: John J. Mulherin

TITLE: Owner

COMPANY: Car Pros Plaza One-Stop Auto Care

NO. OF UNITS: 1 Meineke, 1 Maaco, 1 Econo Lube

AGE: 62

FAMILY: Spouse (and co-owner) Lynn, grown children Meghann and John

YEARS IN FRANCHISING: 15

YEARS IN CURRENT POSITION: 3

PERSONAL

First job: I was a 13-year-old busboy paid 70 cents an hour at the South Shore Country Club in Chicago.

Formative influences/events: Catholic education; U.S. steel industry growth and decline on the South Side of Chicago; various business mentors; athletic competitions and coaches in swimming and water polo; '60s events like rock 'n' roll music, Kennedy assassinations, King assassination and riots, Vietnam War, Woodstock, musicians such as Pete Seeger, The Kingston Trio, James Taylor, Beatles, Rolling Stones, Martha and the Vandellas, Temptations, Smokey Robinson, Linda Ronstadt; classical geniuses like Beethoven, Bach, Tchaikovsky; Chicago sports scene and heroes like Nellie Fox, Luis Aparicio, Walter Payton, Mike Ditka, Michael Jordan, Phil Jackson, and Muhammad Ali; U.S. economic trends of inflation and downturns; change in big company relationships with employees from long term to short term; 9/11; regulatory changes in banks, trends in U.S. capital markets, upheaval on Wall Street; today's government gridlock and the need for unity and compromise among Americans and our political representatives. Also, authors John LeCarre, Martin Cruz Smith, Tana French; business leader Ned Johnson, owner of Fidelity Investments; and U.S. leaders George Washington, Abraham Lincoln, and Franklin Roosevelt.

Key accomplishments: 37 years of marriage to the love of my life and two beautiful, successful children.

Biggest mistake: Too many to count.

Smartest mistake: That's a bit of an oxymoron.

Decision I wish I could do over: Every decision has consequences, good or bad. Each is a learning experience and the sum of them all is who you are. No regrets.

Work week: Monday through Saturday.

How do you spend a typical day? Up early, coffee and quiet time, check media for news/issues, go to the shop and work with customers and employees, return home to spend time with family, perhaps read and relax.

Favorite fun activities: Boating, aviation, scuba, spending time in Charleston, S.C., history and culture, various volunteer activities, and spending time with daughter, son, daughter-in-law, and new granddaughter.

Exercise/workout: Swim, various aerobic and strength machines.

Favorite tech toys: Nook, iPhone.

What are you reading? *Gang Leader for a Day: A Rogue Sociologist Takes to the Streets* by Sudhir Venkatesh. The author has studied life in the notorious Robert Taylor Homes in the South Side of Chicago. With his primary contact a young gang leader, the author observed the gang leader's management and leadership, as well as the relationship between the gang and the residents of the projects.

Do you have a favorite quote? "Do or do not—there is no try." Yoda said that. It's all about results and judging people and organizations by deeds, not words.

Best advice you ever got: I remember watching the Watergate hearings and observing [White House Counsel] John Dean explain the "cancer on the Presidency." Eventually President Nixon resigned in disgrace, all because of petty deception and dishonesty. It occurred to me that a good life rule would be to always tell the truth. I have done my best here, and it works pretty well.

What gets you out of bed in the morning? Challenge, sweetness of life, providing for family, opportunity to make a difference.

What's your passion in business? Innovation and competitive excellence.

How do you balance life and work? It all seems to work out. I don't have any rules here.

Last vacation: Just returned from Cabo San Lucas, Mexico—fun in the sun.

Person I'd most like to have lunch with: Pope Francis.

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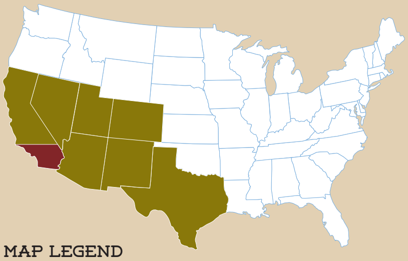

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MANAGEMENT

Business philosophy: Business is all about execution. The best plans are worthless if you cannot effectively implement them. What gets measured gets managed; metrics matter. All small business is marketing; the absolute key to small business is differentiation and distinctiveness. The best team wins. Hire the best and train for success. Provide honest, balanced feedback to employees on a daily basis. Share rewards fairly and generously to build loyalty and commitment. Always operate honestly and ethically—there are no shortcuts, really. Engage, delight, and thank your customer—always. Give back to others in a meaningful way. Business profits are earned, but they are also a privilege. Recognize your social responsibility to community and humanity.

Management method or style: Focused, flexible, situational. I keep perspective and have patience when appropriate. I'm impatient and demanding when necessary. I encourage and support, but require accountability and responsibility. I manage for results and use facts to make judgments. I believe in always knowing your competition and battling fiercely and in a smart way for your value proposition.

Greatest challenge: Small-business ownership is a battle every day.

How do others describe you? Driven, demanding but fair, a little off-kilter, family oriented, plugged in, competitive.

One thing I'm looking to do better: Take my current business to scale.

How I give my team room to innovate and experiment: We work from established procedures and agreed-upon goals. Compensation is directly tied to specific metrics that are discussed weekly. Creativity and risk-taking is encouraged, but we always return to the basic question: Are we achieving our agreed-upon goals?

How close are you to operations? I am on the premises daily and interact continuously with customers and employees.

What are the two most important things you rely on from your franchisor? A fully functioning business system, an effective positioning of the brand names, scale economies in select areas of purchasing such as paint and car parts, and leading expertise in all phases of the automotive repair industry. These purchasing programs do create real competitive advantage. In our paint and body shop, we are the clear price leader because of a unique production process geared to high volume and very low cost of materials. In our mechanic and lube shop, we feature earth-friendly oil products and are in the process of rolling out a nationally branded tire program with Cooper Tires. I am very satisfied with Driven Brands, the parent company, and the brands I have selected. I know and trust their leadership team. They have delivered on their commitments to me, and where there have been the inevitable problem situations, they have always made things right.

What I need from vendors: Quality products, expertise and training where necessary, highly competitive pricing (but they don't always have to be the lowest), timely delivery, a fair returns policy, national branding, and co-marketing where appropriate and helpful. I regard vendors as business partners and strive to develop long-term relationships. This benefits both parties in most cases.

Have you changed your marketing strategy in response to the economy? How? Yes. Money is tight, but in one sense, the downturn has been good for our business. Consumers are keeping their vehicles much longer because they are paid for. An inexpensive paint service can do a lot to create a better look, or as we call it, “Do a “Maacover.” Additionally, the more miles that are put on a vehicle, the greater and more extensive are maintenance and repair needs. We inspect any vehicle free, and we provide free estimates. We offer a wide range of choices for all services and allow the consumer to make intelligent trade-off decisions between cost and longevity. We offer a variety of financing solutions, and we survey our customers on the spot to determine if we are meeting their expectations and call later for follow-up feedback.

How is social media affecting your business? Dramatically. About 20 to 25 percent of our leads originate digitally. Our marketing costs in digital are increasing and our print spend is decreasing. New tools to manage and monitor leads, interact with social media to effectively position our brand and actively market to grow share are business imperatives.

How do you hire and fire? We first ask existing employees for leads. We source through networking (often the best people are working somewhere else). We interview a candidate with two managers separately and compare notes, and we don't put much stock in references. We occasionally create a “tryout,” where we will pay a wage for a day to see if someone can perform at our expected level. We have an Employee Handbook that we review and distribute to every employee. These are the “Rules of the Road.” There are some serious violations for which an employee will be released immediately. There are other violations for which an employee will be documented and counseled, with an opportunity to straighten up and fly right. Our counseling system is progressive; three strikes and you are out.

How do you train and retain? The franchisor does a good job providing training films, materials, and support staff in the shop on most of our core processes. We use a buddy system, placing an experienced employee in a position to train a new employee. Some training is very short term. Other training, such as movement into another job class at a higher skill is planned and developed over a longer term. We really try to encourage skill development and internal mobility.

How do you deal with problem employees? Swiftly and directly. In a small business, we all need to pull our weight every day. There is no room to hide, so problem situations are immediately identified and discussed. We encourage and require total honest communication in a respectful, professional manner. We all make mistakes—but do we learn from them? Repeat problems are documented and discussed. We look for immediate improvement. If so, onward and upward! If not, after three strikes we give you an opportunity to be successful somewhere else.

Fastest way into my doghouse: Show me that you are not accountable for your actions.

tion's first small-business concentration. "Now every business school does it, but he was the pioneer," says Mulherin, who earned an undergraduate degree in political science and an MBA from DePaul.

The franchisee, something of a Renaissance man in terms of his interests and pursuits, learned about hard work during his years growing up in Chicago's South Side. His first job, he says, was as a 13-year-old busboy at a wedding reception at a country club. "On my first day on the job, I dropped a tray full of glassware, dishes, and silver on a dance floor during the reception," he recalls. "It was a show-stopper. I got a round of applause from the 500 guests and a pink slip a few minutes later (they made me clean it up before they fired me). I was 13 years old and figured that I could only go up from there."

BOTTOM LINE

Annual revenue: Low seven figures.

2014 goals: 15 percent top-line growth.

Growth meter: How do you measure your growth? By traffic or, as we call it, car count or estimate count; by average repair order dollar amount; by top-line and bottom-line growth and customer satisfaction scores.

Vision meter: Where do you want to be in 5 years? 10 years? I plan in 3-year increments; 36 months is about the limit of my vision.

How is the current economy affecting you, your employees, your customers? Things are getting better. The national deficit is decreasing as a percentage of GDP. National unemployment currently stands at 6 percent, which is a marked improvement over the past 24 months. Our area is experiencing significant job growth, and housing sales are picking up. But there is still great caution, and many of our customers are very tight for money.

Are you experiencing economic growth in your market? Yes. The South, particularly the coastal areas, is prime retirement country. Charleston is now the #1 tourist city in the U.S. Many new companies (the largest is Boeing) are making billion-plus capital commitments to plant facilities, technology, and people.

What did you change or do differently during the economic downturn that you are continuing to do? We get very close to the customer, demonstrate value and need, and are flexible in pricing and tenacious in sales.

How do you forecast for your business? I don't.

Is capital getting easier to access? Why/why not? No. Banks were lending like drunken sailors in the housing boom and are now overreacting. Good credit can sometimes get money, but marginal credits are quickly shown the door. A variety of specialty finance companies are around, lending at usurious rates. Small businesses in tight situations are greatly at risk.

Where do you find capital for expansion? Self-funding, cash flow lending from banks, specialty lenders. Also, a West Coast company called Guidant is a specialist in creating a business 401(k) from existing 401(k)/IRA accounts.

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

What are you doing to take care of your employees? We have a full range of health, vacation, and holiday pay as well as regular increases for performance. Our health plan rate quadrupled in 24 months and we dropped it as a result. Under the Affordable Care Act, because of our size, we are exempt. We retained a specialist to meet with each employee, and 100 percent of our team has entered the South Carolina state pool and obtained good coverage at much lower rates. In some cases they have qualified for assistance, which in my view is a good thing.

How do you reward/recognize top-performing employees? We try to create a career path. Our shop has different positions with varying skills. We provide training and promote upward mobility. We construct most pay plans with base hourly or salary and a commission plan to promote and reward behaviors that generate revenue. We interview from within for existing positions as a first plan of recruiting before we go outside.

What kind of exit strategy do you have in place? It's too early to say at this point. Ideally, a sale to existing management. I'm still working on it.

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- Kent Swarts,
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BY KERRY PIPES

Peak Performers

Steve and Joanne Reitz aim for "perfect every time"

Steve and Joanne Reitz are partners in life and in franchising. Since we last checked in with him (2009, Q4) the two also have been partners in exploring. In 2010, with their teenaged son Matthew, they climbed Tanzania's Mt. Kilimanjaro (19,341 feet). "It was an amazing trip," he says. In fact, Joanne has been bitten by the exploration bug and has climbed several other mountains since, including Everest Base Camp in Nepal. But back at home, it's still business as usual for the husband-and-wife team.

NAME: Steve Reitz

TITLE: President

COMPANY: Reitz Enterprises

NO. OF UNITS: 8 Supercuts, 3 Five Guys Burgers and Fries

AGE: 60

FAMILY: Wife Joanne, son Matthew

YEARS IN FRANCHISING: 22

YEARS IN CURRENT POSITION: 22

When we last chatted with Reitz, he had 7 Supercuts salons in the Jacksonville, Fla., area and had just opened his first Five Guys Burgers and Fries restaurant in his territory of Western Oakland County, Mich. Reitz, who now lives in Florida, grew up in Detroit. His brother, a contractor, still lives in Michigan and has handled the construction of Reitz's Five Guys units there.

"It's been a tough market during the past 4 years," he says. "Restaurant sales

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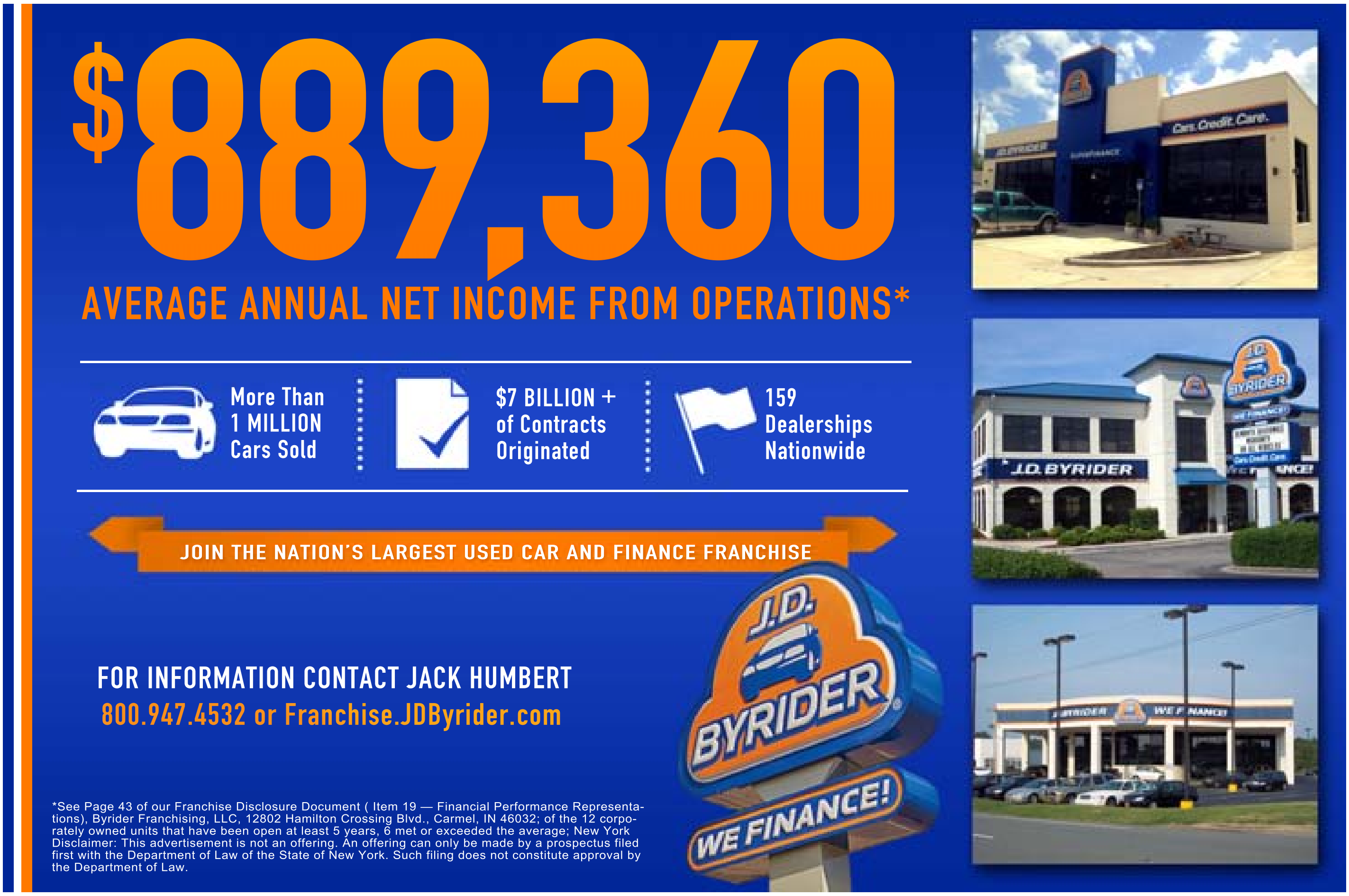

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PERSONAL

First job: On a Sealtest milk truck as a kid; high school teacher as a professional.

Formative influences/events: Working in sales and marketing with Ford Motor Company, and studying with Dr. Deming there.

Key accomplishments: Developed the training program for all of Ford's sales and marketing new hires.

Biggest mistake: Leaving college to work in construction.

Smartest mistake: Leaving college to work in construction because it taught me that I needed to go back to college.

Decision I wish I could do over: Too many to list, but I haven't repeated too many of them.

Work week: Seven days. Both of my business are open, and so am I.

How do you spend a typical day? Check email, return email and phone calls, review previous day's sales, open mail, and process bills. Talk to my area supervisor on the restaurants. Visit one or two Supercuts locations, or as required to perform repairs.

Favorite fun activities: Playing golf, working on golf clubs, and watching my son's high school baseball games.

Exercise/workout: Not much lately. Two knee operations have slowed me down.

Favorite tech toys: iPad.

What are you reading? *The Billionaire's Vinegar* by Benjamin Wallace.

Do you have a favorite quote? "It's not what you don't know that makes you foolish, it's what you know that ain't so." (Unknown)

Best advice you ever got: Trust your instincts.

What gets you out of bed in the morning? There's always something to get done, and there's always something I need to know.

What's your passion in business? I really enjoy making or building something from scratch. A new location, a new incentive, or a new way to look at something.

How do you balance life and work? Because I work out of the house, and because I share three corporations with my wife Joanne, the two seem to go together. It is getting harder and harder to separate the two, but I'm not complaining.

Last vacation: Week of the 4th of July spent at my brother's lake house.

Person I'd most like to have lunch with: Alive: Donald Trump; deceased: Ben Hogan.

MANAGEMENT

Business philosophy: Treat your employees like family, and treat your customers like guests.

Management method or style: Low profile. Empower the managers to act like owners. Trust but verify.

Greatest challenge: To find and retain excellent locations for both concepts.

How do others describe you? Probably as a nice guy.

One thing I'm looking to do better: Do that life/work balance, and to be better organized.

How I give my team room to innovate and experiment: Together, we identify opportunities, but the staff is assigned the task to develop an actionable idea to address the subject. I will sometimes provide suggestions or ideas.

How close are you to operations? With Five Guys I am very close, with Supercuts, Joanne handles most of the operations stuff and I do the physical stuff.

What are the two most important things you rely on from your franchisor? In the early days I relied on their recommended structure and construction recommendations. Now, I rely on their second-party observations and sometimes on providing best practices from other operators.

What I need from vendors: Choices and the lowest prices possible.

Have you changed your marketing strategy in response to the economy? How? Not really. We have been focusing on doing the basic things perfectly to keep customers at the front of our priority list.

How is social media affecting your business? Good question, wish I had a good answer. We participate so as not to be left out, but I'm not sure what it does for us, and I won't quit just in case it's doing more than I think.

How do you hire and fire? We do both with an eye on improving our operations. We try to hire future managers, and we fire people who won't or can't contribute to our improvement.

How do you train and retain? I was attracted to both concepts because of the training that is provided and/or required. Everyone is offered training to improve their skills and knowledge of the business, and we retain because we provide a pleasant and professional work environment with growth and development opportunities.

How do you deal with problem employees? We (usually the manager or direct supervisor) address the issues or behaviors with the employee, develop an action plan for improvement along with a timetable for resolution, and then follow up consistent with the timetable. Everything is documented as well.

Fastest way into my doghouse: Disrespect a customer or co-worker.

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TECHNOMIC

(Technomic "Consumer Restaurant Brand Metrics" Report for 2013)

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Based upon unaudited or verified financial information of 143 restaurants out of 375 continuously in operation for a three-year period. Of the 143 restaurants represented in the three-year group, 61 restaurants (or 42.7% of the three-year group) attained or exceeded the average total gross sales. Other expenses related to owning and operating a restaurant are also included in Item 19 of the April 2013 Franchise Disclosure Document.

This information is not intended as an offer to sell. We will not offer you a franchise until we have complied with disclosure requirements in your jurisdiction. FOR THE STATE OF NEW YORK: This advertisement is not an offering. An offering can be made only by a prospectus filed with the Department of Law of the State of New York. Such filing does not constitute approval by the Department of Law. FOR THE STATE OF CALIFORNIA: 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. Moe's Franchisor LLC, 200 Glenridge Point Parkway, Suite 200, Atlanta, GA 30342. ©2014 All rights reserved.

> “Treat your employees like family, and treat your customers like guests.”

have leveled off as there’s been some market saturation for burger brands and the newness of the segment has worn off.” Still, he’s managed to open two more Five Guys locations in Michigan and added one Supercuts in Jacksonville. He hopes to open one more Five Guys location and at least one more Supercuts salon this year.

Reitz, whose growth has been calculated and conservative, says he’s supported by two brands more interested in getting the right location with the right demographics and profitability than simply just adding stores for the sake of numbers. “That’s important,” he says.

Today, Reitz says, he’s more focused on the operations of the Five Guys brand, and Joanne handles the Supercuts locations. “We have tried to focus more and more on the customer and the customer experience,” he says. “We want to do it perfect every time, and that’s how we differentiate.”

Two knee surgeries have slowed Reitz a bit since we last spoke. But he’s on the move again, enjoying a round of golf when he can, and watching his son pitch for his high school baseball team. He’s also spent the last 12 years on the board of the Supercuts Franchisee Association and the Supercuts Advisory Council, which takes him to the company’s Minneapolis headquarters six times a year.

Now 60, Reitz remains actively engaged in the business, but recognizes the slow march of time. He says, if his son is interested, he’d like to hand the business over to him in another 10 years. For now, he’s focused on one customer at a time and delivering it “perfect every time.” MUF

BOTTOM LINE

Annual revenue: $5.2 million.

2014 goals: To maintain year-over-year unit sales, but to improve efficiencies within each company to increase profitability.

Growth meter: How do you measure your growth? It seems flat is the new up. We try to focus on each customer to ensure loyalty, so we always value the repeat customer measurements that are available. New customers represent our growth and growth opportunities going forward.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years I’d like to be less involved in the day-to-day operations while still being involved in the big-picture decisions. In 10 years I hope to be alive and healthy and have the business turned over to our son. If he elects to pursue a different career path, see my 5-year goal.

How is the current economy affecting you, your employees, your customers? I feel each category is affected, and I feel we all make our decisions with more caution and more consideration for our options. In a tight economy even small decisions matter.

Are you experiencing economic growth in your market? I think the real estate market is returning, but the retail energy is cautiously optimistic.

What did you change or do differently during the economic downturn that you are continuing to do? I think we are being more selective in our hiring practices, which works better for both us and the employees.

How do you forecast for your business? I forecast for staffing requirements and plan for internal development of my current and future managers. I don’t do very well when I try to forecast for sales performance.

Is capital getting easier to access? Why/why not? I don’t know. I don’t use outside capital.

Where do you find capital for expansion? All internal.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Haven’t used it. I try to pay as I go.

What are you doing to take care of your employees? I try to create a work environment that is conducive to longevity. We offer limited health and dental insurance and a 401(k).

How are you handling rising employee costs (payroll, healthcare, etc.)? We look constantly for the best deal in all of our vendor options, but we are limited by how much is really in our control. We work closely with our insurance providers to find ways to save money and to prevent claims.

How do you reward/recognize top-performing employees? We are in the locations regularly, so performance recognition occurs in person on a regular basis. Incentive or contest winners are also congratulated in person, usually by Joanne.

What kind of exit strategy do you have in place? None yet. I’m still having a lot of fun.

BY KERRY PIPES

Hospitality Sweet

Ted Torres expands his hotel empire

When we last spoke with Ted Torres (2009, Q1), the second-generation hotelier was operating a Hilton Garden Inn and had inked a development deal to open five Microtel Inn & Suites locations. Since then, his father—his mentor and partner—retired, and they sold their Hilton Garden Inn for a healthy profit.

In January 2010, Torres formed a new company, Caerus Hospitality. Today he operates and owns (in partnership with Longhorn Lodging) four Microtel Inn & Suites by Wyndham in Central Texas (two in Austin and two San Antonio) and one Baymont Inn and Suites (also Wyndham) in Hobbs, New Mexico. His latest undertaking is a $55 million, 171-room TRYP by Wyndham boutique hotel soon to open its doors in the heart of downtown Austin.

"The Wyndham family of brands have been a great fit for us, and this chance to be on the leading edge of the TRYP hotels here in America was an opportunity we couldn't pass up," says the 48-year-old.

NAME: Ted Torres

TITLE: President/CEO

COMPANY: Caerus Hospitality

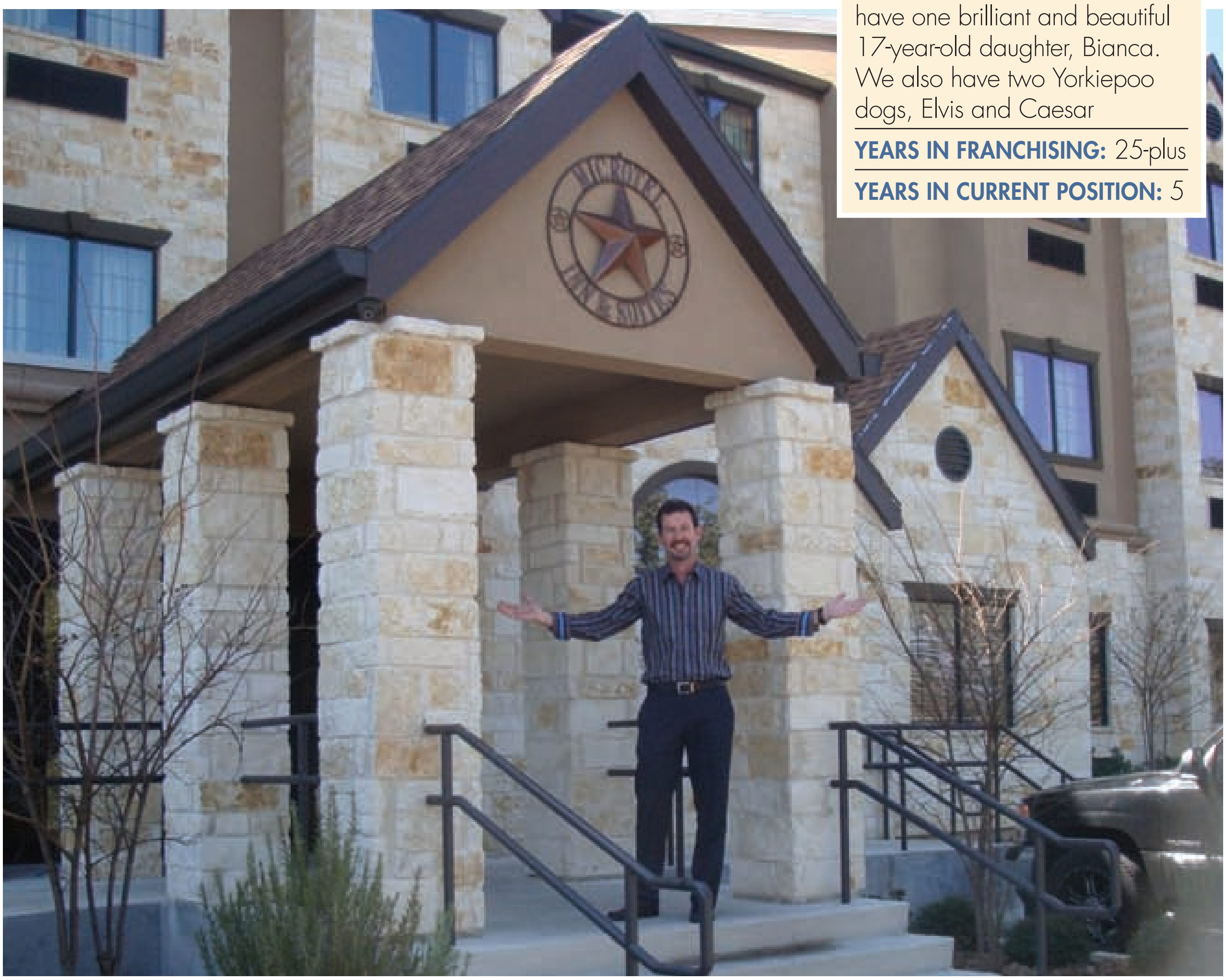
NO. OF UNITS: 4 Microtel Inn & Suites by Wyndham, 1 Baymont Inn & Suites by Wyndham, 1 TRYP Hotel by Wyndham (in development)

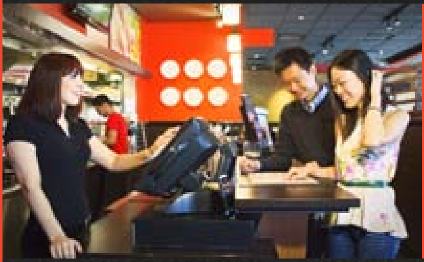
AGE: 48

FAMILY: Married 22 years to my beautiful wife Donna and we have one brilliant and beautiful 17-year-old daughter, Bianca. We also have two Yorkiepoo dogs, Elvis and Caesar

YEARS IN FRANCHISING: 25-plus

YEARS IN CURRENT POSITION: 5





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It seems a mutual respect has developed: Wyndham recently extended the honor of making Torres part of its Preferred Client Group, a role that allows him to work closely with top executives at the brand, and they have become good friends. "I only want to do business with people I like," says Torres. "There should be some type of bond either professionally or personally, otherwise life is just too short."

Torres has a long history of building, owning, operating, renovating, and consulting in the hotel industry. The Arizona State University grad has been working in and around hotels since he was 15. He worked closely alongside his father (a hotel giant in his own right) for years before founding his first company in 2006, consulting and putting packages together for hotel and private equity investors. It was during this time that he realized the opportunity in the economy hotel sector, with its lower cost of entry and higher margins.

> "Your integrity and reputation are worth more than any amount of money."

Today Caerus Hospitality consists of his 5 operating hotels plus 9 to 10 more (including the TRYP hotel) in some degree of development or on his radar screen. The past two years have seen revenue at his hotels soar 200 percent. Never one to let his foot off the gas, Torres is also in the middle of a potential hotel deal with a partner in South America.

Meanwhile back in the U.S.A., one of Torres' San Antonio properties received Wyndham's "Renovation of the Year" award for 2012, and his company has been recognized with the "Top 20 Brand Excellence" award. Torres is a Certified Hotel Administrator (the most prestigious certification available to a hotel general manager and hospitality executive), and is in the middle of a second three-year term serving on the Microtel Inn & Suites Franchise Advisory Council. MUF

PERSONAL

First job: Snack bar attendant, Harrah's Reno, Nevada.

Formative influences/events: My most formative business influence and role model is my father, José Torres.

Key accomplishments: During the recent recession we were very fortunate to acquire one hotel through foreclosure auction, which led to us finally getting construction financing for the development of three flagship hotels in central Texas. The day the first new construction hotel finally opened and we had the ribbon-cutting and grand opening party, all of us partners took a quiet collective moment and cried tears of joy.

Biggest mistake: Taking on very expensive debt.

Smartest mistake: Working with my mentor for 15 years, my father.

Decision I wish I could do over: Giving financial brokers/investment bankers (i.e., crooks) up-front money to go get our group either debt or equity for a given project. If they need up-front money, they are not real and will just steal from you.

Work week: At this stage I only work half days, and since there are 24 hours in a day, I only work 12.

How do you spend a typical day? Up at 6 a.m., coffee, read overnight emails, get previous day's results, work out for one hour, more emails, then office if I'm at home, or meetings with our key managers if I am on the road. Throughout the day, phone calls with partners, future investors, lenders, scheduled team calls for sales efforts, and operations recaps; while at properties, sales calls in the afternoon with managers. My day typically winds up at about 10 p.m. after the last dinner meeting.

Favorite fun activities: International travel/vacation with my family. Each year we get to spend about 2 to 3 weeks of solitary time, just the three of us, and reconnect with each other. Driving my sports car, driving my scooter in our beautiful Arizona weather, playing golf with friends.

Exercise/workout: 5 to 6 days a week, alternating between cardio and weight training.

Favorite tech toys: iPad.

What are you reading? Just finished Tom Clancy's *Command Authority* while on vacation. I love James Patterson series books, and now some new James Bond novels. And yes, they are books, not on an e-reader. I have so much down time with travel I always have a book with me.

Do you have a favorite quote? Only do business with people you like. If you cannot generate some type of bond either professionally or personally, then do not do business with them. Life is too short.

Best advice you ever got: Go to work with my father, who was an industry titan, and I will learn more in a shorter period than doing anything else. It worked.

What gets you out of bed in the morning? Personal drive and motivation to fully occupy our hotels daily, provide amazing customer service, guide our talented teams, and provide profit to our investors and partners.

What's your passion in business? Hospitality in all of its forms.

How do you balance life and work? Exercise, read, eat correctly, talk with family and friends, get things that upset me off of my chest, walk our dogs, and take family vacations.

Last vacation: Two weeks in the Caribbean over the Christmas and New Year's holidays. One week on a Seabourn cruise (absolutely the best service anywhere), and one week in Barbados.

Person I'd most like to have lunch with: Paul Hewson, aka Bono, the lead singer of U2 and worldwide humanitarian.

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MANAGEMENT

Business philosophy: Set a goal, and do everything within yourself and motivate your team to assist you in achieving that goal. Be fair with people, create a team environment, give your people autonomy, yet hold them accountable, and they will fight fiercely with you in the battlefield of business. Your integrity and reputation are worth more than any amount of money.

Management method or style: Transparent, instructive, and inclusive. The management team knows the big picture. This in turn ensures minimal surprises. We provide our team with all the tools they need to succeed. Additionally, all our hotels are in areas with large Hispanic populations, and because of this we have a management team (including myself) who are bilingual in English and Spanish. This is paramount in our industry as it eliminates any communication barriers. Also, because I'm 50 percent Hispanic, our line-level employees are very proud of working for an owner who understands them, their cultures, and their beliefs. This all helps create a tremendous "family-like" environment.

Greatest challenge: Debt refinancing.

How do others describe you? Affable, great communicator, good listener, approachable, high integrity, good businessman, consummate hotelier, and leader of people.

How I give my team room to innovate and experiment: I make them responsible for their own hotels or business units. We agree on the budget, and on the sales and marketing plans. Based on this, it is up to them how those results are delivered.

How close are you to operations? Very close. I know everything that occurs in our hotels.

What are the two most important things you rely on from your franchisor? 1) Greater visibility and marketing exposure that leads to more hotel bookings at our properties, and 2) access to key senior management personnel who enable me to remove impediments to our success caused by the enormous bureaucracy within those organizations.

What I need from vendors: Bulk discounts for smaller-quantity orders.

Have you changed your marketing strategy in response to the economy? How? No. We still reach out to every one of our markets through direct contact. We have enhanced our marketing effort because of our critical mass, hiring a corporate sales manager for the company, and are getting to larger business-providing sources. We are also opening up new international inbound markets with direct sales efforts into Latin America.

How is social media affecting your business? TripAdvisor.com is the social media the hospitality industry depends on for accuracy. Travelers no longer depend on star ratings from agencies like AAA; they want to know who is ranked the highest on TripAdvisor, and that is where they want to stay. For our hotels, we manage against TripAdvisor. Two of our five hotels are #1 in their markets (which gives us more bookings), two more are in the top 15 percent in their respective cities, and our oldest hotel has moved up over 200 places in the rankings since we acquired it.

How do you hire and fire? I personally hire the corporate staff and the hotel general managers. The GMs then hire their teams. We have a team member handbook with guidelines that all are required to follow. Terminations are through a standard three-strikes policy, or a blatant violation of the team member handbook.

How do you train and retain? Our managers are all seasoned veterans of the hospitality industry; all are able to provide training in customer service skills, as well as training in any franchisor-mandated standards.

How do you deal with problem employees? Each is dependent on the individual situation.

Fastest way into my doghouse: Lose a key account because we made stupid internal mistakes repeatedly that led to the account leaving our hotel.

BOTTOM LINE

Annual revenue: N/A.

2014 goals: $7.5 million.

Growth meter: How do you measure your growth? Against previous-year results.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, growth of the company to 20 hotels. In 10 years, retired, traveling parts of the world I have not yet seen.

How is the current economy affecting you, your employees, your customers? The economy is growing and expanding, particularly in Texas and New Mexico. We are forecasting a great run for the next 5 years.

Are you experiencing economic growth in your market? Massive growth.

What did you change or do differently during the economic downturn that you are continuing to do? Tightened costs, changed suppliers, eliminated overtime, and had management work more hours.

How do you forecast for your business? Annually.

Is capital getting easier to access? Why/why not? While there is more available from multiple sources, it is still difficult to get financing closed.

Where do you find capital for expansion? Existing partners, investment bankers, networks of known individuals.

Have you used private equity, local banks, national banks, other institutions? Why? We have used all three. During the recession, we sourced debt capital for new hotel construction, when no one else could. Now our hotels are poised to dominate their respective markets.

How do you reward/recognize top-performing employees? We have team member of the quarter and for the year. Winners receive cash prizes, meals with their managers, and the team member of the year has a personal dinner with me in addition to more cash.


CAPTAIN D's
2522

2014 MULTI-BRAND 50

1	**NPC INTERNATIONAL INC.**	**1,232**
	PIZZA HUT	1,226
	PIZZA HUT/TACO BELL	2
	KFC	2
	TACO BELL	2
2	**TARGET CORP.**	**1,167**
	PIZZA HUT	1,163
	JAMBA JUICE	2
	COLD STONE CREAMERY	2
3	**FLYNN RESTAURANT GROUP LLC**	**586**
	APPLEBEE'S	448
	TACO BELL	115
	TACO BELL/PIZZA HUT	14
	KFC	5
	TACO BELL/KFC	4
4	**ARAMARK**	**484**
	CHICK-FIL-A	98
	EINSTEIN BROS. BAGELS	94
	SUBWAY	44
	QUIZNOS	37
	PIZZA HUT	34
	PAPA JOHN'S PIZZA	34
	PANDA EXPRESS	19
	JAMBA JUICE	15
	TACO BELL	15
	MOE'S SOUTHWEST GRILL	11
	THE EXTREME PITA	8
	TIM HORTONS	7
	SBARRO	6
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	6
	KFC	5
	MCALISTER'S DELI	4
	RAISING CANE'S CHICKEN FINGERS	4
	SEATTLE'S BEST COFFEE	3
	PIZZA HUT/TACO BELL	2
	QDOBA MEXICAN GRILL	2
	JACK IN THE BOX	2
	WHICH WICH	2
	IHOP	2
	DUNKIN' DONUTS	2
	WENDY'S	2
	COSI	2
	FRESHII	2
	PINKBERRY	2
	DENNY'S	2
	NOBLE ROMAN'S	2
	ROUND TABLE PIZZA	2
	TOGO'S	2
	BEN & JERRY'S SCOOP SHOP	2
	SALAD CREATIONS	2
	BEEF 'O' BRADY'S FAMILY SPORTS PUB	2
	MOOYAH BURGERS & FRIES	2
	BLIMPIE	2
	COLD STONE CREAMERY	2
5	**ARMY & AIR FORCE EXCHANGE SERVICES**	**462**
	BURGER KING	128
	CHARLEY'S GRILLED SUBS	86
	SUBWAY	73
	POPEYES LOUISIANA KITCHEN	38
	TACO BELL	38
	EINSTEIN BROS. BAGELS	18
	TACO JOHN'S	13
	CHURCH'S CHICKEN	12
	BLIMPIE	11
	GODFATHER'S PIZZA	10
	CINNABON	9
	PIZZA HUT	7
	CAPTAIN D'S	7
	WING ZONE	7
	ARBY'S	5
6	**HMS HOST**	**430**
	BURGER KING	79
	QUIZNOS	44
	SBARRO	37
	PIZZA HUT	31
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	29
	THE GREAT AMERICAN BAGEL	25
	CINNABON	23
	ROY ROGERS FAMILY RESTAURANT	20
	NATHAN'S FAMOUS	19
	POPEYES LOUISIANA KITCHEN	16
	FAMOUS FAMIGLIA	9
	GORDON BIERSCH BREWERY	8
	JOHNNY ROCKETS	8
	GREAT STEAK & POTATO COMPANY	8
	KFC	6
	KELLY'S CAJUN GRILL	5
	CHICK-FIL-A	4
	YEUNG'S LOTUS EXPRESS	4
	MOE'S SOUTHWEST GRILL	3
	EINSTEIN BROS. BAGELS	3
	SALSARITA'S	3
	COLD STONE CREAMERY	3
	MAX & ERMA'S	3
	RUBY'S DINER	3
	QDOBA MEXICAN GRILL	2
	SONNY BRYAN'S SMOKEHOUSE	2
	TCBY	2
	T.G.I. FRIDAY'S	2
	HÄAGEN-DAZS	2
	BAJA FRESH	2
	PINKBERRY	2
	SUBWAY	2
	SMASHBURGER	2
	VILLA PIZZA	2
	KRISPY KREME DOUGHNUTS	2
	LA SALSA	2
	GODFATHER'S PIZZA	2
	BLIMPIE	2
	DICKEY'S BARBECUE PIT	2
	RANCH•ONE	2
	ROMANO'S MACARONI GRILL/MACARONI GRILL	2
	TONY ROMA'S PIZZA	2
	MNG BY MANGO	1
7	**SUN HOLDINGS**	**398**
	BURGER KING	172
	POPEYES LOUISIANA KITCHEN	73
	ARBY'S	52
	CICI'S PIZZA	49
	GOLDEN CORRAL	33
	T-MOBILE	12
	DEL TACO	7
8	**SODEXO INC.**	**375**
	EINSTEIN BROS. BAGELS	69
	PIZZA HUT	53
	CHICK-FIL-A	51
	WOW CAFE & WINGERY	46
	TACO BELL	23
	SUBWAY	19
	QUIZNOS	13
	BURGER KING	13
	CHESTER'S	12
	JAMBA JUICE	10
	TIM HORTONS	9
	PAPA JOHN'S PIZZA	8
	DENNY'S	6
	BLIMPIE	6
	HOT STUFF FOODS	6
	NRGIZE LIFESTYLE CAFE	6
	BAJA FRESH	4
	A&W	4
	PIZZA HUT/TACO BELL	3
	SEATTLE'S BEST COFFEE	3
	GODFATHER'S PIZZA	3
	CARL'S JR	2
	LJS/A&W	2
	MCALISTER'S DELI	2
	NATHAN'S FAMOUS	2
9	**PILOT TRAVEL CENTERS LLC**	**339**
	SUBWAY	176
	WENDY'S	50
	ARBY'S	38
	CINNABON	22
	TACO BELL	14
	DAIRY QUEEN/DQ	11
	HUDDLE HOUSE	9
	PIZZA HUT	7
	HOT STUFF FOODS	4
	CARVEL	3
	MOE'S SOUTHWEST GRILL	3
	KFC	2
10	**HARMAN MANAGEMENT CORP.**	**308**
	KFC	118
	KFC/A&W	118
	KFC/TACO BELL	45
	KFC/LJS	19
	KFC/PIZZA HUT	3
	TACO BELL	3
	A&W/LJS	1
	PIZZA HUT/TACO BELL	1
11	**TACALA/BOOM FOODS**	**303**
	TACO BELL	223
	SONIC DRIVE-IN	66
	PIZZA HUT	11
	KFC/TACO BELL	3
12	**BRIDGEMAN FOODS/ERJ DINING INC.**	**288**
	WENDY'S	165
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	123
13	**ADF COMPANIES**	**287**
	PIZZA HUT	285
	PIZZA HUT/TACO BELL	2
14	**KBP FOODS**	**281**
	KFC	230
	TACO BELL	47
	LONG JOHN SILVER'S	4
15	**WILCOHESS LLC**	**274**
	DUNKIN' DONUTS	233
	WENDY'S	27
	SUBWAY	8
	ARBY'S	4
	GODFATHER'S PIZZA	2
16	**JIB MANAGEMENT INC.**	**263**
	JACK IN THE BOX	221
	DENNY'S	36
	SIZZLER'S	6
17	**K-MAC ENTERPRISES INC.**	**259**
	TACO BELL	213
	KFC/TACO BELL	27
	KFC	17
	LJS/KFC	2
18	**HESS CORP.**	**257**
	GODFATHER'S PIZZA	143
	QUIZNOS	112
	BURGER KING	2
19	**LOVES TRAVEL STOPS & COUNTRY STORES**	**245**
	SUBWAY	135
	CHESTER'S	51
	ARBY'S	47
	GODFATHER'S PIZZA	12
20	**FUGATE ENTERPRISES**	**242**
	PIZZA HUT	171
	TACO BELL	71
21	**MUY BRANDS LLC**	**219**
	PIZZA HUT	166

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Contact Gary Matusiak for franchise information

1-888-MEXBEST
franchising@pancheros.com

2014 MULTI-BRAND 50

	LONG JOHN SILVER'S	28
	TACO BELL	14
	KFC	5
	KFC/TACO BELL	4
	LJS/KFC	2
22	**COMPASS GROUP USA**	**215**
	PAPA JOHN'S PIZZA	43
	SUBWAY	26
	QUIZNOS	19
	EINSTEIN BROS. BAGELS	18
	BLIMPIE	10
	TACO BELL	10
	AU BON PAIN	8
	PIZZA HUT	8
	SALSARITA'S	8
	WENDY'S	7
	JAMBA JUICE	6
	PANDA EXPRESS	6
	NATHAN'S FAMOUS	6
	PINKBERRY	4
	SBARRO	4
	UNO DUE GO	3
	BURGER KING	3
	TIM HORTONS	3
	DENNY'S	3
	WHICH WICH	2
	HÄAGEN-DAZS	2
	MOE'S SOUTHWEST GRILL	2
	BOJANGLES	2
	MARCO'S PIZZA	2
	NOBLE ROMAN'S	2
	BEN & JERRY'S SCOOP SHOP	2
	JOHNNY ROCKETS	2
	JERRY'S SUBS & PIZZA	2
	ROLLERZ	2
23	**TA OPERATING LLC**	**202**
	POPEYES LOUISIANA KITCHEN	47
	SUBWAY	42
	TACO BELL	36
	PIZZA HUT	35
	BURGER KING	28
	PIZZA HUT/TACO BELL	8
	KNIGHTS INN	2
	RODEWAY INN	2
	TIM HORTONS	2
24	**QUALITY DINING INC.**	**179**
	BURGER KING	131
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	48
25	**BORDER FOODS INC.**	**175**
	PIZZA HUT	83
	TACO BELL	82
	CHURCH'S CHICKEN	4
	PIZZA HUT/TACO BELL	2
	KFC/PIZZA HUT	2
	KFC/TACO BELL	2
26	**SIZZLING PLATTER INC.**	**170**
	LITTLE CAESARS PIZZA	150
	SIZZLER	20
26	**THE PANTRY INC.**	**170**
	SUBWAY	147
	DAIRY QUEEN/DQ	12
	QUIZNOS	3
	CHESTER'S	2
	CHURCH'S CHICKEN	2
	NOBLE ROMAN'S	2
	HOT STUFF FOODS	2
28	**MARLU INVESTMENT GROUP**	**160**
	ARBY'S	53
	CHURCH'S CHICKEN	47
	JACK IN THE BOX	21
	SEARS HOME APPLIANCE SHOWROOM	17
	SEARS OUTLET	9
	LITTLE CAESARS	5
	SIZZLER	5
	SEARS HARDWARE AND APPLIANCE	3
29	**BR ASSOCIATES INC./SIDAL INC.**	**158**
	LONG JOHN SILVER'S	103
	WENDY'S	35
	DENNY'S	20
29	**JRN INC.**	**158**
	KFC	156
	PIZZA HUT	2
31	**CEDAR ENTERPRISES**	**151**
	WENDY'S	149
	BURGER KING	2
32	**INTERFOODS OF AMERICA INC.**	**147**
	POPEYES LOUISIANA KITCHEN	141
	BURGER KING	6
33	**RESTAURANT MANAGEMENT COMPANY OF WICHITA INC.**	**144**
	PIZZA HUT	135
	LONG JOHN SILVER'S	9
34	**CHARTER FOODS INC.**	**142**
	TACO BELL	61
	LONG JOHN SILVER'S	58
	LJS/A&W	16
	LJS/TACO BELL	3
	PIZZA HUT/TACO BELL	2
	PIZZA HUT	2
35	**PALO ALTO INC.**	**139**
	PIZZA HUT	72
	TACO BELL	40
	PIZZA HUT/TACO BELL	18
	KFC	9
35	**DOHERTY ENTERPRISES**	**139**
	APPLEBEE'S	100
	PANERA BREAD	35
	CHEVYS FRESH MEX	2
	QUAKER STEAK & LUBE	1
	NOODLES & COMPANY	1
37	**RLJ LODGING TRUST**	**137**
	COURTYARD BY MARRIOTT	33
	RESIDENCE INN BY MARRIOTT	30
	FAIRFIELD INN/INN & SUITES	14
	SPRINGHILL SUITES	10
	HILTON GARDEN INN	10
	HAMPTON INNS	9
	MARRIOTT HOTEL	6
	EMBASSY SUITES HOTELS	6
	HYATT SUMMERFIELD SUITES	6
	HOLIDAY INN	4
	RENAISSANCE HOTELS & RESORTS	3
	HOMEWOOD SUITES BY HILTON	2
	HILTON/HILTON SUITES	2
	DOUBLETREE HOTELS/DOUBLETREE GUEST SUITES	2
38	**CELEBRATION RESTAURANT GROUP/CFL PIZZA/ BRAVO FOODS**	**135**
	PIZZA HUT	95
	TACO BELL	40
39	**VALENTI MANAGEMENT LLC**	**129**
	WENDY'S	112
	CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO	17
40	**KBP FOODS INC.**	**124**
	KFC	114
	TACO BELL	10
41	**WISCONSIN HOSPITALITY GROUP LLC**	**121**
	PIZZA HUT	83
	APPLEBEE'S	38
42	**APEX RESTAURANT MANAGEMENT**	**120**
	KFC	66
	LONG JOHN SILVER'S	36
	KFC/TACO BELL	18
43	**JEM RESTAURANT GROUP INC.**	**119**
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	TACO BELL	29
	PIZZA HUT/TACO BELL	2
44	**BRIAD RESTAURANT GROUP LLC**	**115**
	T.G.I. FRIDAY'S	67
	WENDY'S	48
45	**THE SCRIVANOS GROUP**	**114**
	DUNKIN' DONUTS	113
	DUNKIN' DONUTS/BASKIN-ROBBINS	1
46	**MARK CAFUA**	**110**
	DUNKIN' DONUTS	106
	DUNKIN' DONUTS/BASKIN-ROBBINS	4
47	**LUIHN FOOD SYSTEM**	**107**
	TACO BELL	44
	KFC	32
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	LJS/KFC	6
	PIZZA HUT	2
	KFC/A&W	2
	KFC/PIZZA HUT	2
48	**V & J HOLDING COMPANIES INC.**	**106**
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49	**W2007 EQUITY INNS REALTY LLC**	**104**
	HAMPTON INNS	30
	RESIDENCE INN BY MARRIOTT	24
	COURTYARD BY MARRIOTT	14
	HYATT PLACE	14
	HOMEWOOD SUITES BY HILTON	11
	SPRINGHILL SUITES	6
	HOLIDAY INN	2
	FAIRFIELD INN/INN & SUITES	1
	TOWNEPLACE SUITES BY MARRIOTT	1
	EMBASSY SUITES HOTELS	1
50	**BURGERBUSTERS INC**	**100**
	TACO BELL	82
	PIZZA HUT	11
	PIZZA HUT/TACO BELL	7

TOP 25 BRANDS OF THE 2014 MULTI-BRAND 50

1	**PIZZA HUT**	**3,840**
2	**TACO BELL**	**1,212**
3	**KFC**	**767**
4	**SUBWAY**	**698**
5	**WENDY'S**	**595**
6	**APPLEBEE'S**	**586**
7	**BURGER KING**	**585**
8	**DUNKIN' DONUTS**	**454**
9	**POPEYES LOUISIANA KITCHEN**	**315**
10	**LONG JOHN SILVER'S**	**238**
11	**QUIZNOS**	**228**
12	**CHILI'S/CHILI'S GRILL & BAR/CHILI'S TOO**	**223**
12	**JACK IN THE BOX**	**223**
14	**EINSTEIN BROS. BAGELS**	**202**
15	**GODFATHER'S PIZZA**	**172**
16	**ARBY'S**	**156**
17	**CHICK-FIL-A**	**153**
18	**LITTLE CAESARS PIZZA**	**150**
19	**KFC/TACO BELL**	**122**
20	**KFC/A&W**	**120**
21	**CHARLEY'S GRILLED SUBS**	**86**
22	**PAPA JOHN'S PIZZA**	**85**
23	**CHURCH'S CHICKEN**	**75**
24	**T.G.I. FRIDAY'S**	**69**
25	**DENNY'S**	**67**

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BY EDDY GOLDBERG

IN-HOUSE OR OUT?

Focus on your best and outsource the rest

Franchising is all about outsourcing. Someone comes up with a great concept and essentially outsources its growth to franchisees so corporate can focus on its core task of system development. Why not take that idea and apply it to your own multi-unit organization? After all, if the prevailing wisdom at larger companies is to focus on their core competencies and outsource the rest, why should it be any different for you?

Sean Falk

"The important thing to remember is to take on the responsibility for the things you do best. Outsource the things that are time-consuming or a challenge for you, so that you can focus on strategy and growth," says Sean Falk, a multi-unit franchisee with 12 units in the food sector.

Key questions in making a decision to outsource include: What *are* your core competencies? Can you afford it at this stage of development, or are you still feeling you have to keep doing it yourself? What should you outsource, when, and for how long? And perhaps most important: Can you let go?

Smaller and younger companies often don't have the $150,000 to $175,000 to hire an in-house CFO, or an in-house sales person at $60,000 to $80,000 a year plus 5 percent of sales. "They don't have the deep pockets," says Dick Rennick, founder and CEO of Team Rennick.

"Infrastructure is usually just overhead with no significant income associated with it," says Falk. "When you add the overhead, you better have additional plans to grow from your current level. Otherwise, you cannot overcome the expense you just added to your business model."

Once operators feel they have enough units to support additional overhead, Falk suggests they start by considering the following positions for hiring: operations manager, regional manager, administrative assistant, marketing specialist, bookkeeper, and perhaps accounts receivable/payable.

"All of these choices depend on your situation, the needs that you have, and the things you excel at," says Falk, who offers another piece of hard-won advice: "Stay ahead of the growth. Don't hire an operations manager because you have grown so much that now operations are out of control. Hire them early so you can continue with your growth plan in an orderly way."

Executive as a service

"Each situation is different," says Andrea McKenna, who has worked in a marketing role with brands including Dunkin' Donuts (EVP, chief marketing officer) and Friendly's (director of advertising and sales promotion). She currently is working with a non-food franchise, which has chosen to outsource its marketing.

"They had a few people internally doing some good things, but realized they were at a place in their business growth where they couldn't afford to bring in a full-time person," she says. McKenna is working three days a week as a "fractional" CMO.

McKenna works with Chief Outsiders, a company that supplies chief marketing officers to companies that need them now, but only for a limited time, for example, to help them with projects such as reversing substantial traffic declines (Friendly's) or repositioning the brand with new product categories (Friendly's).

Once she begins working with a company, says McKenna, the scope may become larger than initially anticipated. If the client thinks more work is needed, or would like the rent-a-CMO to stay on longer to see the project through to completion, they have the option of renewing on a 30-day basis.

Andrea McKenna

"Many of the companies we deal with can get a much higher-level person if they don't have to pay them full-time," says Art Saxby, founding principal of Chief Outsiders. "Instead of full-time temporary, go fractional. It's better to be part of a company for 6 or 12 months, sitting


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at the CEO's table. It's less expensive than hiring a full-time middle-level executive," he says.

"A company needs to hire capabilities that they recognize can significantly differentiate themselves, which is something they're going to need forever," says Saxby. However, for situations where a campaign or initiative is time-limited, outsourcing the needed expertise is the way to go. "When major changes occur, you need it now, not forever." In those situations, he says, "You don't need someone to grow with the company, you need someone to supercharge your growth over the next six to nine months."

The "executive-as-a-service" professional becomes part of the leadership team, but only for a limited time. That, says Saxby, is where outsourcing the C-suite comes in: it allows a company to bring in an experienced leader who can work as part of the company leadership team to realign the company's vision, set up processes for future growth, or even create and execute strategies with your team.

In the marketing sphere, for example, if a franchisee is moving into a new market or targeting a new type of customer, the skill set is different from that needed to keep an existing function going. There's no need to hire a full-time person at a full-time salary. "It's different to create something new, rather than keep something growing. That may be a good time to outsource," says Saxby.


Brad Leath

When evaluating potential outsourcing companies, he says, 1) be very specific on the skill sets required, don't just settle on someone who's out of work; and 2) it's critically important to get the right cultural fit, even more than the technical fit.

"Make sure that whoever you bring into your organization understands what's important to your culture," says McKenna. That person should also be a contributor and be able to ramp up quickly. "Make sure the person's a *doer*, not just a director or strategist," she says.

"We're focused on top-level marketing growth," says Saxby. "Everyone in my company is a seasoned C-level executive." He says they don't want to go back to Fortune 1000 boardrooms with their meetings, politics, and bureaucracy, and prefer to make a larger impact at a smaller firm. "People can learn great things at big companies, but it's really hard to double the size of a large company. That's the allure for them of small business. The 'I can make a difference' factor in small businesses is a huge pull."

Outsourcing with two hats

Brad Leath has seven Go Mini's territories in Western Tennessee, Western Kentucky, and Southern Indiana. He's also the brand's franchisor—or at least one of them—which puts him in an unusual role when it comes to outsourcing. "My territories are like the laboratory," he says. " I start my vendors at the local level and graduate them to corporate."

Previously, the moving and storage portable container company was a dealership model with about 220 dealerships. "A handful of us bought 80 percent of the company from the founder," he says. "The first thing we did was convert to a franchise model. We went from zero to 70 franchisees right out of the gate."

Before that, he says, "We were really over-outsourcing, with everyone using their own local vendors." After the company converted to a franchise model, he began searching for ways Go Mini's could take advantage of economies of scale and best practices.

"I try to outsource as much as I can," he says. "I don't want to spend my time becoming an expert in everything. If it's something extremely de-skilled or that doesn't require a lot of manpower, I can do it myself."

At the franchisor level, he's built a team of vendors, mainly to serve franchisees. "If a franchisor is doing their

WHAT IS OUTSOURCING?

Outsourcing is the process of delegating certain portions of your operation to an outside company with expertise in that area. It allows a company to engage another company for what would normally be considered an inside function, such as sales or marketing.

Outsourcing offers advantages over traditional franchise consulting and advisory services. The company in need is able to choose from a much larger and deeper pool of talent than what may be available locally; can target very specific areas of expertise where it is seeking additional resources; and is free from the base salaries, employee taxes, and other fees incurred through direct employment.

Perhaps most important, the outsourced team seamlessly integrates into the company, working with them on a day-to-day basis and becoming a true extension of the team. Companies can enhance both their team and their internal efforts through external sources.

An outsourcing solution can be implemented at any time, but is most effective with concepts that are relatively young, either from launch or within the first 2 years, in all sectors of business, and with a wide range of growth goals, anywhere from one to 10 units per month.

Another important aspect of the outsource solution is that it takes systems beyond the initial set-up phase and works with them for the first 9 to 12 months post-launch.

The outsource solution was deployed in response to the stage we are at in the lifecycle of franchising. More than 50 years into the era of modern franchising, traditional franchise consultants are still focused on showing franchisors how to start a franchise; and once all the legal, training, and operational documents are complete and the franchisor is ready to sell, the consultant walks away.

—Dick Rennick, Founder and CEO of Team Rennick

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job right, they should be able to provide for the franchisee what they need cheaper than they could find it at the local level," he says.

However, that doesn't always work. Case in point: Leath has six territories open, but only four trucks to move his portable storage units. "The way I pull that off is that through outsourcing. I'm having someone else move their valuables. I think that because they move things professionally, they probably do a better job." But that's not a blanket solution. "In smaller cities, its better for me to have third parties move things around. In larger cities, I need to have my own trucks."

When it comes to the books, one of the critical challenges of running a business is knowing where you are on a cash flow basis in real time. "It's difficult, and here's why," he says. "I won't see March's numbers until into April. And that's how it works right now for me."

To remedy this, he's working with Bookkeeping Express (a franchise) and a company called Xero (online accounting software), who are developing what he calls a new kind of QuickBooks for use online. "Together they're coming up with a solution for me, my local franchise, to do my books," he says. "They connect directly into my software to see the income coming in, what bills are due, and update my books every single day. Most companies do it monthly."

David Oden

One-stop shopping

David Oden is a financial executive who has worked in the restaurant business for more than 25 years. He joined InfoSync as president in 2004, attracted by the company's integration of basic financial services into one package.

"We believe it's a big advantage to acquire multiple services from one provider. You want your focus on the things that make you successful. Outsourcing bookkeeping, accounting, and payroll allows you to keep focused on your people and your customers, on operations, marketing, and HR—the main functions you have to take care of in your business."

InfoSync has clients who operate more than 6,000 restaurant locations, as well as a few in the senior living and hotel sectors, says Oden. They range from multi-unit operators with 5 to 10 locations to publicly held restaurant companies with up to 350 company-owned locations and nearly $1 billion in revenue.

"We've designed our outsourced accounting, payroll, and reporting solutions to provide them with the freedom to focus on running their restaurants, not on managing internal administrative departments—at a cost that is significantly less than doing it themselves," he says.

A franchisee with one, two, or three locations can keep up, he says, but adding locations, often farther and farther apart, requires a different set of expertise, as well as systems many smaller operators don't have or can't afford. "If you are a smaller franchisee, it is very difficult to have the people you need," says Oden. With a fractional solution they can achieve the efficiency without having less or more than they need.

"All the clients need is to provide us with access to their historical information and tell us how they'd like it to work," he says. "The big piece is the automation." The software will not only connect to your books, POS system, labor, and all the data that feeds payroll or accounting, it also will link up with your vendors, providing a larger, more comprehensive perspective on the business.

The ongoing trends of franchisors refranchising and of larger multi-unit operators growing by acquisition and diversifying with new brands often requires additional infrastructure, along with its ongoing expense. "We see a lot of operators diversifying into multiple brands within their industry," says Oden. This increases the complexity for the franchisee, who now must manage multiple store systems, multiple formats

OUTSOURCING FINANCIALS TO BOOST VALUE

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

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

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

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

—Dean Zuccarello, CEO and founder of The Cypress Group

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for financial reporting, and different procedures and processes—which is where outsourcing comes in.

And don't forget the ongoing benefit of freeing up your time for what you do best. "As you grow, you don't really outgrow the benefits of outsourcing, and you retain the element of focus," says Oden.

Yes, technology too

"Outsourcing technology is very common in franchising," agrees Keith Gerson, president of FranConnect. "Until you get big enough, you're going to outsource." By definition, he says, anyone who enters into a franchise relationship is, to some extent, entering into an outsourced relationship, paying the franchisor to help train and support them and their employees.


Keith Gerson

Many of his franchisor customers use FranConnect's software and related technology instead of building it on their own. He notes that a lot more franchise systems are passing down the technology fee to their franchisees, $100 to $300 per month—a pittance compared with doing it themselves.

Multi-brand franchisees, however, face a different set of challenges. "As a franchisee organization gets larger or more complicated—especially with multiple brands—it can't rely on a single franchisor across its different brands."

Can the software you're using be configured across your multiple brands, even your single brand? Do you have to hire someone to roll up the data and analytics for all of your locations?

Also, he says, as lead generation and brand building become increasingly automated and move online, many multi-unit operators are bringing in a marketing consultant, especially for mobile and digital. "If I'm a multi-unit operator that's what I'm doing. They could not on an annualized basis do what those systems do for them," he says.

"What do you want to do as a franchisee? Certainly not spend your time in an office doing analytics or keywords. It's a matter of getting your nose out of the books and the computer."

However, with the ever-increasing complexity of doing business in 2014, franchisees are seeing an increasing number of suppliers and vendors offering to solve their problems through outsourcing. But how do you perform due diligence in contracting with one? And how do you benchmark their performance in your company?

"When it comes to hiring outside consultants and vendors," he says, "franchising needs the equivalent of an Angie's List."

One painful example of why this would be a good thing to have: "We had a client who turned to us because they used a supplier that was undercapitalized and failed after six months. The franchisees were in the process of integrating the solution and lost a lot of time when the supplier failed."

Finance—the human factor

"A major reason small businesses fail is financial performance. It's pretty much a universal reason," says Michael Sullivan at The Profit Experts, which provides automated financial reporting and management plus CFO-level expertise.

"There's nothing new why these companies fail. We're not equipped to do financials. Our brains aren't wired that way—otherwise we'd be a CFO," he says.

"I'm a very typical entrepreneur and small-business owner," says Sullivan, who has plenty of experience starting businesses of his own. However, when it comes to financial management, he says, "Most small-business owners are doing something, but it's not the right thing." His goal is to help them spend less time *and* do a better job.

At the recent IFA annual conference, his first, he says, "I would hear franchisors say, 'We send them financial forms and they won't fill them out.' I asked, 'Why do you think they don't?'" Beyond the forms often being too complicated, he thinks franchisors place unrealistic expectations on franchisees to do it all. "You're asking them to manage operations, new hires, marketing, social media, and by the way, financials. They don't have the skill set."

Another part of the problem, he says, is that small-business owners can get by for a while without outside help by using QuickBooks, an accountant, and a CPA. "They tell me, 'I've got a CPA, they do this.' No, they don't. They're compliance people and seven months a year they don't think about you," he says.

"Most people are on QuickBooks. Our software automatically uploads their data into the tool, populates the model for the CFO, and tells them what's missing," he says. "And every month we have a call. Primarily we talk off one dashboard, which even I can understand."

The dashboard shows cash flow by week going out 2 years, as well as the amount of cash they need in the bank so they can sleep at night. The monthly phone call also enforces accountability, since it includes a review of the previous 30 days and a check-in to see if the customer did what they said they'd do.

"One of the reasons we look out over that time frame (2 years versus 60 to 90 days) is that when a problem happens in the moment, you may not have enough time to fix it, versus being able to see it coming. Also, you may have eliminated the best solution," he says. "You have to manage to reality, not the way you wish things were, but the way they are. This is a means for them to be able to do that and have peace of mind."

Paying a monthly fee of $300 to $600 not only provides much-needed expertise, it also allows franchisees to acquire a broader perspective and develop financial discipline—if they want to. Sullivan says there's nothing they need to learn. "There's no webinar, no course, and they're immediately able to use this," he says. "And over time, they can get as smart as they want, at whatever level they want."

Says Sullivan, "It's interesting to me that small-business owners view paying for financial services as discretionary. As entrepreneurs, what drives us is generating revenue, but it doesn't go to cash flow. We are deadly focused on cash flow and profitability." MUF


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Loyalty Deserves Its Own Rewards

Create a rewards program that works for you – and your customers!

The best loyalty programs do four things:

1) help you continuously engage and remain "sticky" with your existing customers;

2) allow you to understand your customer's buying behavior with you;

3) drive more revenue, greater retention, and higher lifetime customer value; and

4) make customers feel appreciated.

This was the consensus from the 2014 IFA Convention, where I joined a discussion about loyalty programs with a diverse group of franchise organizations. These included foodservice, hair salons, home healthcare, dry cleaning, and specialty services from lawn care to maid service to printing and shipping. Leaders and franchisees from these companies shared a common question: What are the best customer loyalty programs?

Loyalty or rewards programs?

In wrestling with this question, it is clear that so-called loyalty programs are really rewards programs. Most grocery brands, for example, invite you to get their shopper card so you can get discounts on items you purchase. Signing up means providing your identity and personal information up front. Then you agree to share your purchasing data by using the card when you shop. You can't get those discounts without signing up for the program. That's the deal.

So shopper cards are not just rewarding for the customers. The grocer trades what is valuable to them (access to customer data) for what is valuable to customers (savings). Customer purchasing data and demographics are quite valuable to every franchise business as well. But investments in technology are the ante to get in the loyalty (rewards) program game in a serious way. Grocery chains were early adopters of advanced technology in the B2C world. They invested in real-time POS systems that integrate with marketing. That's not the case in many franchise systems.

Richard Simtob of Zoup! summed up the challenge this way: "Everyone wants a loyalty program, but no one wants to pay for it! But I do like the idea of rewarding people for frequency. I just don't like to give away free stuff." Alas, for customers to *receive* rewards someone has to *give* rewards.

How to fund a program

How do you fund all the administration and free rewards that come with such a loyalty (rewards) program? Large companies like Starbucks and Dunkin' Donuts have found that offering their own app helps pay for the costs of their rewards program. That's because when customers pay for repeated purchases using the app, instead of a credit card, the business saves millions in swipe fees. It works like this: Customers download the free app, but to activate it they have to 1) share information about themselves, and 2) load the app with a stored-value gift card. Subsequent transactions draw down the pre-payment and are outside the banking system.

Chris Vitale, CEO of ZNAP QSR Solutions, explained how to further leverage that idea. "Starbucks and Dunkin' Donuts sell millions of gift cards in the holiday season. Then they encourage the gift card holders to register their cards to protect against losing any remaining value if they lose the card. Registration leads to flipping that stored-value plastic card into a reloadable gift card. At Dunkin' Donuts that means enrollment into the new DD Perks Rewards Program; at Starbucks it goes into the My Starbucks Rewards app. By using the stored value gift cards for mobile payment, the credit card transaction fees are eliminated."

Alternative approaches

If you can't make that kind of investment, there were a number of rewards programs the group shared that aren't as ambitious, but that demonstrate easy ways to start.

Donna Reeve from Regis Canada said the company has had success offering a free hair coloring as a reward for purchasing a certain number of haircutting services. This reward works because hair coloring is a premium service that many Regis customers aspire to, and truly value. The pursuit of this perk does drive stickiness and higher lifetime value for some customers.

Another example came from Greg Carlucci, who works for Agile Pursuits Franchising, owned by Procter & Gamble, makers of Tide. Even though the parent company is large, its Tide Dry Cleaners brand is just getting started, with about 20 units operating. Each location gives its top 25 customers a holiday gift basket as a thank-you. It's a pure reward with no strings attached. The 80-20 rule justifies giving the most perks and spending the most on retaining your most profitable customers.

Tide Dry Cleaners also provides first-time customers with an immediate reward bag containing free samples of other P&G cleaning and household products (Febreze, Bounce, and Cascade to name a few). This unexpected gift creates a high-impact first visit to Tide, which increases the likelihood to return and to spread positive word of mouth.

Remember, the best loyalty/reward programs make customers feel appreciated.

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

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Re-Brand, Re-Model, or Re-Train?

Improve hiring and training to increase sales

Over time, every brand evolves to stay relevant to its customers. You may not go through a corporate "rebranding" exercise to the extent that Wendy's, Burger King, or Arby's recently did, adopting a new logo, new store design, and/or new products. If you operate restaurants, think about it: at some point, did you add new items to your menu, redecorate your dining areas, or buy updated employee uniforms? All of these areas, along with your logo and name, combine into your unique brand. Changing just a few of these is a smaller version of rebranding.

Rebranding your franchise is expensive. The costs associated with designing, building, and rolling out a new logo, store design, signage, uniforms, packaging, and advertising (just to name a few) can cost large franchises millions of dollars and countless hours. So why do it? A large portion of companies believe rebranding will help attract new customers, help them relate better to their target consumer, and give them a fresh appeal in the marketplace.

A large push is occurring for major store remodels across most older, national restaurant chains, from Wendy's, McDonald's, Arby's, and Burger King to O'Charley's and Applebee's. While the extent of the remodels varies, the majority of the expense falls on the franchisees. Most estimates show these remodels can costs hundreds of thousands of dollars per location.

Will spending several hundred thousand dollars out of your own pocket to add Wi-Fi, flat-screen TVs, and state-of-the-art self-service drink machines garner a large enough ROI to justify the cost and time?

Bottom line? Your main goal with a remodel, or any rebranding exercise, is to increase sales enough to cover the costs and continue that increased revenue on an ongoing basis. Some franchise owners, after years of slow sales, are deciding the cost doesn't justify the gain; rather than pay for the remodels, many are opting to sell instead.

Obtain rebranding results without rebranding?

Imagine if you could change customers' views of your company and dramatically increase sales *without* the expensive costs of remodeling or rebranding. You can—simply by improving your employee hiring practices. The sales increases you will see from improved customer service (minus the minimal expense) will bring you a staggering ROI.

Finding and hiring high-quality candidates can make or break the success of your company. It all comes down to customer service. Employees who know your products and are attentive to your customers' needs will keep customers happy and coming back. However, many managers struggle to find and hire employees who can deliver outstanding customer service.

Finding new faces

Finding great employees who are engaged and a fit for your company culture—and keeping them in an industry known for its high turnover rate—seems like a daunting task. But a few simple steps can help you quickly identify, screen, and hire employees who will provide better customer service and increase sales.

1) Automate your hiring process. If you are still drowning in a sea of paperwork and paper-based job applications, it's hard to quickly identify which applicants are best for that open position. To make finding new applicants quick and easy, find an online applicant tracking system (ATS) that offers a user-friendly online job application, filters to sort applicants, and integration with job boards.

2) Screen applicants thoroughly. Chances are you sometimes interview and then hire the last person who walked in and applied for the job simply because they were there at the right time—regardless of whether you have better-fitting candidates in the growing pile of applications on your desk. To quickly weed out the not-so-greats from those best fit for the position, use assessments. Attitude and cognitive assessments can easily determine engagement, job fit, and counter-productive tendencies. Integrating assessments into your ATS and online application makes finding the best employees a breeze.

3) Engage, engage, engage. Communicating and actively engaging with your new hires (and all other employees) is an essential step that is often overlooked. Research from The Conference Board has shown highly engaged employees outperform their less engaged colleagues by 20 to 28 percent. Gallup polls have found that engaged employees average 27 percent less absenteeism. Provide ample training, give performance reviews, and establish a clear career advancement path. These are just a few examples of how to help your employees feel engaged.

If you want to improve your store sales but lack the substantial funding needed to remodel or rebrand, look no further than your current team members. Investing in your employees—to hire, train, and engage them—will dramatically increase your sales. Happy employees provide better customer service, which leads to more sales. This year, invest in your people. The results will astound you. MUF

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

Security BY DAVID ELLIS

Prevent Hacking Horror Stories

Three online security failures to learn from

We hear hacking horror stories every day. Businesses around the world call us in a panic, needing to decipher what went wrong with their security. Unfortunately, for many franchisees and franchisors, these miscues are common. My hope in sharing some details from three actual security failures is that you will discover actions you can take to enhance your own IT security practices.

1) Pass the pepperoni and passwords, please. Several small pizza chains used the same restaurant management software and POS system. Sadly, hundreds of those restaurants were hacked.

Once each restaurant's POS system was configured, the local restaurant owners did not change the default password set by the payment application vendor. A hacker easily deduced the password, infiltrated each POS system, and installed a memory scraper (malware designed to "scrape" sensitive information from system memory). This particular memory scraper was designed to scrape customer credit card information from each restaurant's POS system, and thousands of pizza lovers' credit cards were stolen.

It's typical for POS terminals and other software/hardware solutions to begin their lifecycle with default passwords. Default passwords make it easy for IT vendors to install a system without learning a new password each time. The problem is that default passwords are often simple to guess; many are even published on the Internet.

Passwords should be changed every 90 days, contain at least 10 upper *and* lower case letters, *and* numbers, *and* special characters. Passwords that fall short of these criteria can usually be broken using a password-cracking tool.

Moral: Don't leave your passwords in their default state.

2) A picture is worth a thousand hacks. A popular website-hosting service gave customers the ability to log in to their corporate server to upload website images through the file transfer protocol (FTP) feature.

In this example, an attacker hacked the FTP upload and uploaded malicious code onto the host's servers. Because the web-hosting service had access to each of its customers' websites, every client website was infected with malware designed to capture credit card information from checkout pages.

Why was the hacker able to access credit card information in multiple accounts through a picture uploader? The main problems in this scenario were a lack of network segmentation and lack of understanding that FTP is inherently insecure. The web-hosting service shouldn't have used FTP, and it *should have* segmented their customer's accounts. (Segmentation is the act of using firewall technology to compartmentalize network areas that contain sensitive information—like customer credit cards—from those that don't.)

Moral: Don't invite hackers to waltz into your corporate server.

3) Compromise is just a password away. An unfortunate franchisee with hundreds of high-dollar restaurants hired an IT company to configure their remote access systems across multiple locations.

Remote access, the ability to access a computer or server from a different location, is often used in mid-sized to large organizations for employees who need access to shared files and company networks, or by business owners logging in from home or the road to view the day's receipts. Popular remote access applications include pcAnywhere, VNC, LogMeIn, and TeamViewer.

The IT company configured the remote access application with a single user name and password authentication for each restaurant location. Once a hacker discovered the user name and password for one location, he was then able to download malware into all of the restaurant's POS systems. This resulted in the theft of thousands of customer credit cards.

This hack could easily have been prevented if the franchisee had complied with the Payment Card Industry Data Security Standard (PCI DSS), which mandates that all remote access into the cardholder environment requires two-factor authentication. This means that in addition to entering a user name and complex password, you must also complete a second secure login step, such as physically calling an onsite manager to be granted a remote session, entering a one-time authentication code sent to a specific cell phone, or matching unique client-side certificate files.

Moral: Remote access is only as secure as its authentication.

In my experience, these scenarios highlight common problems in franchise credit card security. I encourage you to check your system to look for one or more of these security vulnerabilities. Look for default or non-complex passwords, install security patches and updates, configure your payment application securely, segment your credit card processing network from all other networks, and ensure that your remote access requires two-factor authentication.

David Ellis *is forensics investigation director at SecurityMetrics and has more than 25 years of security experience. SecurityMetrics is a data security and compliance company offering security consulting, products, and services for businesses worldwide. For more information, visit securitymetrics.com or call 801-995-6858.*

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Franchise Update MEDIA

A Balanced Approach

Fundamentals and feelings *can* co-exist

If the nation hadn't been in the midst of a government shutdown and debt ceiling debate, last year's Nobel Prize winners in economics probably would have received more attention and commentary. Two of the three winners—Eugene Fama of the University of Chicago and Yale's Robert Shiller—are as different as Tea Party Republicans and Democrats in their theories about the rise and fall of stock prices and other assets. Investors can learn a lot from both.

To Fama, markets are efficient systems where relevant information is immediately and rationally reflected in stock prices. So, for the most widely researched portions of the market, such as domestic U.S. large cap stocks, that means active management is nearly impossible.

Numerous studies show just how difficult it is for active managers to consistently outperform the market when operating in the most efficient and liquid asset classes, since thousands of other individuals are able to simultaneously adjust to each bit of information just as quickly. This inability to gain an edge amid a well-informed crowd has helped popularize such investment vehicles as index and exchange traded funds (ETFs).

In Shiller's behavioral finance theory, markets and prices are considered as emotional and irrational as the people making the investments—a version of the "fight or flight" response that allows people to survive danger.

After 30 years on the front lines of the investment business, my experience aligns more closely with Shiller's. I can cite hundreds of examples.

Take U.S. equity markets. As we closed out 2012, the sequestration cuts, budget impasse, and increases in payroll and marginal tax rates seemingly would have led you to believe that U.S. equity markets would swoon in late 2012 and into 2013. Remember that the tax and budget deal didn't get signed until early January. However, the opposite happened. The S&P 500 actually *rallied* more than 10 percent by the end of first quarter and ended the year more than 30 percent higher!

> **Some of the best long-term tactical opportunities often come when the herd is running hard in one direction, but fundamentals indicate a different course.**

Last summer, when the Fed said the U.S. economy seemed to be recovering well enough to be taken off monetary life support (quantitative easing), the markets *plunged*, instead of rising to applaud an economy healthy enough to stand on its own.

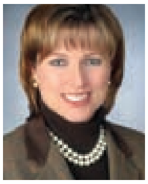
Now, some investors are cheering the notion that the Fed is moving slowly in retracting its monetary stimulus. It is likely that the Fed will not raise short-term interest rates until well into 2015 or beyond, given the still tenuous state of developed economy fundamentals and balance sheets. Longer term, flooding the globe with cheap dollars is bound to have consequences. I discuss much more on this topic in "The End of the Bond Bull," a white paper you can read on abbotdowning.com.

Think this applies just to the stock market? What about in 2011 when Standard & Poor's downgraded the AAA credit rating of U.S. government debt? U.S. Treasury securities actually *rallied* on the day of the downgrade! Global equity markets in general were roiled as investors prized the perceived security of treasuries more than the effects of the downgrade.

Fundamentals and feelings can co-exist. Both schools of Nobel Prize-winning thought can complement each other in a well-thought-out portfolio or investment program. For example, investors who want participation in the many corners of the markets that are increasingly well covered and efficient would theoretically look for investment vehicles that allow broad and cheap participation (ETFs, for example).

Those wanting to invest in parts of the globe or in asset classes that are less efficient (fewer analysts covering, fewer investment choices, less market depth, etc.) should be willing to pay a premium price to active managers with strong track records in those segments.

Meanwhile, behavioral finance reminds us to consciously and actively seek to test the implied wisdom of current market prices against a solid evaluation of intrinsic value. Some of the best long-term tactical opportunities often come when the herd is running hard in one direction, but fundamentals indicate a different course. MUF



Carol M. Schleif, *CFA, is regional chief investment officer at Abbot Downing, a Wells Fargo business that provides products and services through Wells Fargo Bank, N.A. and its affiliates and subsidiaries. She welcomes questions and comments at carol.schleif@abbotdowning.com.*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BY STEVE LEFEVER

A Roadmap To Unlock Hidden Profitability

Interdependence is the key

Mysteries are solved when we use clues to find the culprits behind the crime. Financially speaking, when the crime results in the untimely demise of a business, we often see three usual suspects: low cash, low gross margin, and low net margin.

But low cash and low margins are *caused* by something. The diagram presents a big picture overview, but also can lead us through a clue-by-clue, cause-and-effect deductive analysis designed to pinpoint potential financial culprits. When combined with industry benchmarks, this diagram can become your personal roadmap to success.

First, how to read it. Between any two boxes, in the direction of the arrows, insert the word "causes." In other words, "low cash" *causes* "high borrowing." Now, if you work against the arrows, include the words "is caused by" between the two boxes. For example, "high interest" *is caused by* "high borrowing." Gross margin is highlighted for a reason: without an adequate margin (long term), you might as well close up shop.

Start at "low cash" and take it in all directions until you've traveled all through the system. Many people view financial problems or issues as isolated occurrences. One of the primary benefits of this financial cause-and-effect diagram is to highlight the interdependent nature of the financial system in your business. *The key here is interdependence.*

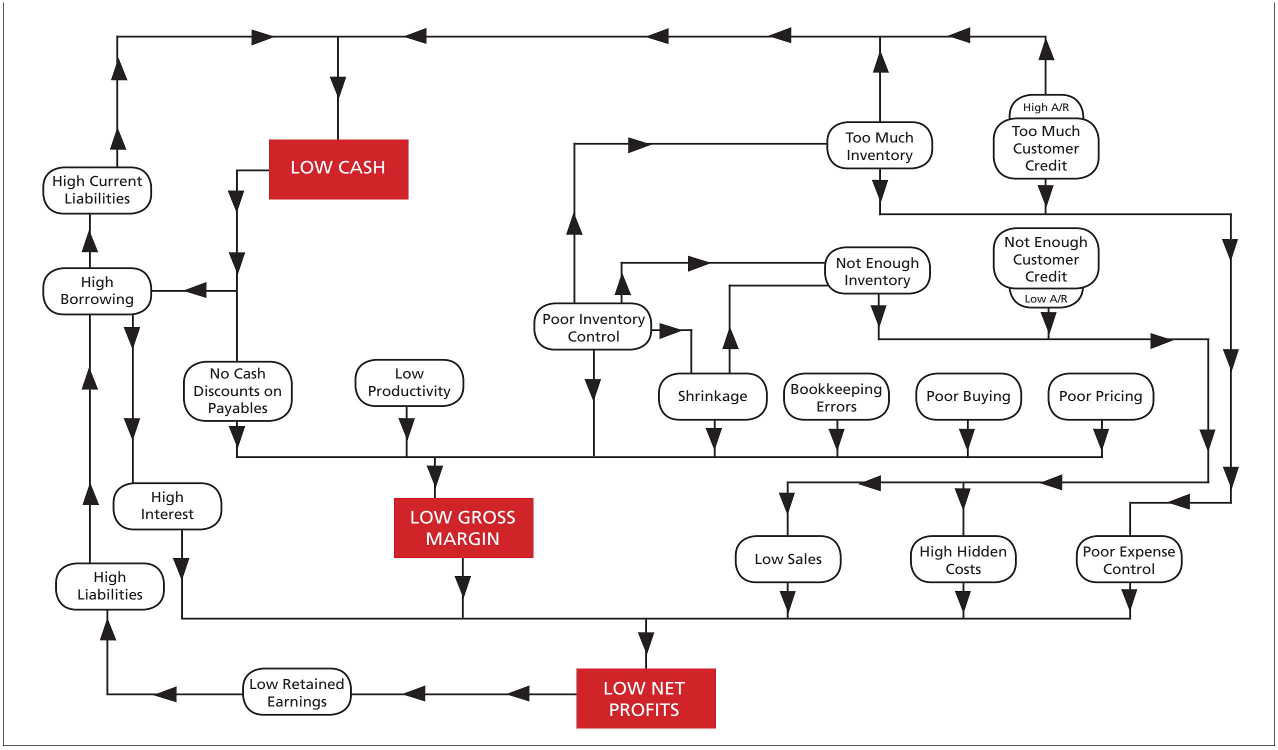
Let's join our case study client, John Thomas of Thomas Rentals, at the "scene of the crime." John does about 55 percent of his business in construction equipment rental. Although his sales were up in 2013, John ended making less money than he did in 2012. At one point, John confessed that he was forced to get an emergency line of credit from his bank. As his personal private eye, we can use the roadmap to help John do a little detective work to figure out where he went wrong.

We'll start with **gross margin.** Using the median financial operating ratios from his latest benchmark report, John sees that his peers who earn 30 to 59 percent of their rental revenue from construction equipment achieved a 70.7 percent gross margin; his high-profit peers did even better, making almost 73 cents. John's gross margin in 2013 was 69 percent, 4 percent lower. Lest you think a few percentage points is small change, that 4 percent on his $1 million in sales could have dropped $40,000 right to his bottom line.

According to the roadmap, low gross margin is caused by the following: no cash discounts on payables, low productivity, poor inventory control, shrinkage, bookkeeping errors, poor buying, and poor pricing.

Let's focus now on **low productivity,** a key driver behind margins in the rental industry. A highly productive company generates high revenues from its rental investments. Looking at his peers' productivity ratios, we see that this was indeed an area in which John's company fell short. As shown above, John gets four cents less in gross margin for every dollar invested in rental assets than his most profitable peers. John

Cause-and-Effect Relationships Leading to Financial Distress



has rental assets that cost him $800,000. If they were as productive as the assets of the top 25 percent, he'd have made another $32,000 in gross profit.

Reading through his industry benchmark report, John sees his issue: low gross profit in relation to the investment in rental equipment, along with several specific possible causes (under-utilized rental inventory, high costs of rental assets). Could his low gross margins be caused by any of the other factors listed above, such as poor pricing or poor buying? We checked the competition's prices and found that John could raise his prices without affecting his position in the market. An increase of only 1 percent on sales of a $1 million, and voila!, we found $10,000 more for the bottom line.

Next stop, **cash flow.** Since John shared with us that he ran into some cash crunches last year, let's look at how he rates in that department. According to our roadmap, low cash is caused by high current liabilities, too much inventory, and too much customer credit. While John appears to have done a decent job in managing his inventory, one of the key ratios—the current ratio—indicates that his solvency is off, compared with his peer group. In fact, for every dollar of current liabilities (that will need to be paid in the next year), the high-profit group has current assets (assets that will become cash within a year) of $2.43 to pay off their liabilities, compared with John's $1.75. (For his entire peer group, that figure was $1.39.)

Using the roadmap, we find that one of the possible causes behind his low cash is too much customer credit. And, as we'll see, something that can really drive up that number is taking too long to collect his accounts receivable (A/R). While his high-profit peers took 44 days to collect money from their customers, John took 52 days for his. This 8-day difference is crucial to his low cash situation.

If we know the formula for A/R turnover (the rate at which customer debts are collected on an annual basis), we can use these numbers to find out what his receivables "should" have been, had he managed his collections process as well as his peers did:

1) If we know that A/R Turnover = Credit Sales ÷ A/R, then

2) We can rearrange the formula like this: A/R = Credit Sales ÷ A/R Turnover.

3) Then, if we add the word *Target* to both sides of the equation: *Target* A/R = Credit Sales ÷ *Target* A/R Turnover.

We know that John's 2013 sales were $1 million, and that 50 percent of sales were made on credit. We can then divide the credit sales by the high-profit group's A/R Turnover number of 8.4 (the target): Target A/R = $500,000 Credit Sales ÷ 8.4 Target Turns = $59,524. But John's *actual* A/R at year-end was $72,500, an A/R of nearly $13,000 more than his high-profit peers.

When you take the $13,000 excess A/R and divide it by 8 days, that's $1,625 for every day John lets his customers keep his cash. (You might recall that one of the causes behind low gross margin is not taking discounts on payables. With more cash, John might have nabbed some of those discounts and increased his margins—or maybe avoided that last-minute credit line and resulting interest.)

John has now found a plan to improve his collections and decides to schedule a management meeting *today* to put it into action. Let's summarize the results of our little sleuthing exercise:

	More Profit	More Cash
Improve asset productivity	$32,000	
Raise prices	$10,000	
Other issues yet to be identified	$6,000	
Total gross margin difference	**$48,000**	
Total A/R difference		**$13,000**

That's a total of $61,000 of improvements to profit and cash flow we found in just one quick trip around the roadmap—and we didn't even get into the third area of low net profits!

My challenge for you is simple. Use this format to take a trip through your business. As with any trip, you can't reach your destination without a map, and that's what this framework is: a financial roadmap. You can't solve the mysteries until you know *what* to ask and *where* to look!

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.*

BY DEAN ZUCCARELLO

Will Valuations Fall?

Guidance likely to curtail bank lending

In March 2013, U.S. banking regulators issued new guidance designed to curb increasingly aggressive lending by both banks and finance companies. The new guidance is intended to provide a "safer" financial landscape and reduce the risk of a financial crisis like the one that occurred in 2008.

Background. Regulators have been under fire from Congress and the current administration for failing to address what is believed to be overly aggressive lending preceding the financial crisis. Historically, the Fed could use its open market policy to raise interest rates as a mechanism to manage lending risk. Theoretically, weaker credits and riskier transactions would be unable to support the higher interest costs, and thereby reduced lending risk. Today, with limited ability to raise interest rates in the current fragile economic recovery, the Fed has focused on influencing leverage as a way of managing risk. Financial system stability is the intended benefit, as high-risk lending is slowed or stopped, thereby avoiding (or at least postponing) another financial crisis.

Guidelines. Banks, whether acting as lead arrangers or syndication partners, are being required to categorize loans on their books to determine which loans will be affected. Loans that meet certain criteria will be deemed "criticized loans" and will carry a hefty risk insurance premium. This will drive down margins for lenders and force them to increase rates. The criteria for "criticized loans" include, among other things:

1) excessive leverage, defined as an EBITDA multiple over a certain level (6x is being discussed);

2) inability to fully amortize all *senior* debt or half of total debt (including real estate, presumably) within 5 to 7 years out of cash flow; and

3) lack of meaningful covenants to protect lenders in distressed situations ("covenant lite" loans).

At this time, the specific details behind the criteria are not exactly clear. For example, if a loan meets only one criterion, is it "criticized"? Or does it have to meet all three? How do the regulators specifically define EBITDA? Are any adjustments to the EBITDA calculation allowed? How many "criticized" loans might a bank be allowed to carry? Will one criterion carry more weight than another? How will off-balance-sheet obligations be treated? Is there a size limit that subjects a loan to the test?

We believe that a meaningful percentage of loans in today's franchise lending marketplace would qualify to earn the "criticized loan" status.

Impact. How will these new regulations affect the future for a business desiring to expand through acquisitions and organic growth, as well as its ability to finance such transactions? While it is impossible to predict exactly how this will play out, it is apparent that the lending complex is likely to pull back on leverage as a result of the regulations. And lower leverage puts a damper on valuations, both today and in the future.

A basic M&A valuation axiom is "less debt availability = less leverage for deals = lower transaction prices." It may take some time, but the impact will appear. And while this may appear to be counterintuitive at first, it stands to reason that a seller's decreased *future* price expectations can bring valuation closer to a buyer's *present* price expectations. This would likely lead to increased deal activity in the near future as sellers realize they are at or near peak valuation.

Again, what this translates into for a business owner is that banks will be able to lend less money per transaction than previously. This pullback will likely have a somewhat negative effect on franchise business valuations going forward.

Market actions. Private equity insiders cite the new regulations as a huge obstacle to overcome in terms of transactions currently in the pipeline that require financing, as lenders hesitate to follow through with commitments as predictably as they had in years past. Regulators have publicly stated that curbing private equity risk is an intended consequence of their actions. On the other hand, private equity may be in a position to fill some of the void left by the banks, simply by becoming new lenders to select borrowers in need of debt. Hedge funds and non-regulated lenders are already filling this gap, and we expect them to get more aggressive as they can offer speed and flexibility in exchange for higher rates and fees.

Banking insiders say they are very uncomfortable with the uncertainty surrounding the new, stricter requirements, and this is having a chilling effect on new leveraged lending opportunities.

As a result of the regulations, we expect that loan costs will rise. How much they will rise is yet to be determined. There will also be less capacity for high leverage as banks limit the number of "criticized" loans they make. In addition, banks will be forced to require higher fees and higher rates to compensate for the risk of running afoul of the regulatory constraints and drawing attention to the institution itself. Any loan has to provide the lender a reasonable return, including compensation for the risk of increased scrutiny.

We expect increased lending rates to put downward pressure on valuations. We further expect that the specter of decreasing values could result in a flood of M&A activity in an effort to lock in to today's valuations. 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 serving the multi-unit and franchise business for 23 years. Contact him at 303-680-4141 or dzuccarello@cypressgroup.biz.*

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BY DARRELL JOHNSON

Franchisees Unite!

Manage uncertainty through cooperation

The Affordable Care Act (ACA) implementation, potential minimum wage increases, and likely overtime rule changes add to the ongoing challenges of managing the expense side of any business. For multi-unit operators, the implications are increased costs. However, there are a few efficiencies to be gained from the scale multi-unit operators enjoy that can lessen the impact.

The ACA represents one opportunity for efficiency for larger multi-unit operators not shared with smaller franchised and most non-franchised SMEs subject to the 50-employee trigger. Managing a larger pool of hourly labor employees allows greater flexibility. It also comes with additional costs in the form of management time; but therein resides the efficiency, in that incremental additions to labor, in theory, should not have similar incremental additions to management time if management is operating efficiently.

A common thread with all these potential changes is that we often don't know how to most effectively minimize the impact these costs have on our businesses. In other words, we have uncertainty. We should tackle uncertainty with two sequential solutions. The first is ideas. We're pretty good doing that. The second is measuring outcomes that ideas create. We're less proficient with this step.

Let's use the ACA as an example. We already have a number of "experts" telling us all its implications and how to change our business models. Some will be right, others will be quickly forgotten. Who should we listen to? In franchising, we are fortunate to have people living their experiences and willing to share them.

At Franchise Update's upcoming Multi-Unit Franchising Conference (Las Vegas, April 23–25), there will be a general session panel of multi-unit operators clarifying misconceptions about the ACA and explaining how they are preparing for the changes it will bring. This exchange of ideas and initial approaches starts us down the path toward tackling an issue shared by all multi-unit operators. That's a necessary first step, but it is not enough to promote universal action. Which ideas should we adopt? How much will they cost? And what are we saving by doing so?

> **We should tackle uncertainty with two sequential solutions. The first is ideas. The second is measuring outcomes that ideas create.**

Answers to these questions can be developed only over time. Unfortunately, we tend to miss the opportunity that sharing this type of information can provide. As an example, administering changes to the ACA will cost money. How much should you budget? What nuances of administering required changes will produce the most cost savings? We can answer those questions only with facts—facts that can come only from shared multi-unit experiences.

If we have a common challenge we all have to deal with, wouldn't it make sense to build a way to share outcomes, so that all could benefit? *It seems as if we are being confronted with a challenge that has cooperation written all over it.*

The path is pretty straightforward: Develop a set of common definitions, contribute actual data against those definitions, and benchmark each against the whole. Multi-unit operators have so many common challenges I'm surprised that such common sense solutions don't already exist. Then again, multi-unit operators are almost all entrepreneurs, which means, among other things, that they have to learn for themselves what doesn't work to find out what does.

Some franchise systems do quite a bit of performance data sharing. For those systems, I would expect that addressing the new labor cost challenges will be a central topic. For systems that don't do a good job of performance data sharing (and for those that don't address the additional needs specific to multi-unit operator performance), what should multi-unit operators do? Is there any reason they can't reach out to other multi-unit operators with other brands? There are some non-franchise cooperatively grouped businesses that pool performance information (look up CoopMetrics as one example). Perhaps multi-unit operators should form their own group.

What role should franchisors have in assisting such efforts? Historically, franchisors have focused their training and performance systems on less-sophisticated operators. In most cases, that's what multi-unit operators prefer, leaving them to manage their expanding businesses based on their own experiences. Unfortunately, when confronted with a common new challenge like labor cost changes, that leaves multi-unit operators to figure things out on an individual basis.

Is it time to address common challenges in both the ideas and facts phases? Will multi-unit operators find ways to share actual performance results that lead to individual improvement for all? Perhaps that would be worth a separate discussion at the Multi-Unit Franchising Conference. I'll see you there.

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