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ISSUE IV 2014

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Multi-Unit Franchisee contents

ISSUE IV, 2014

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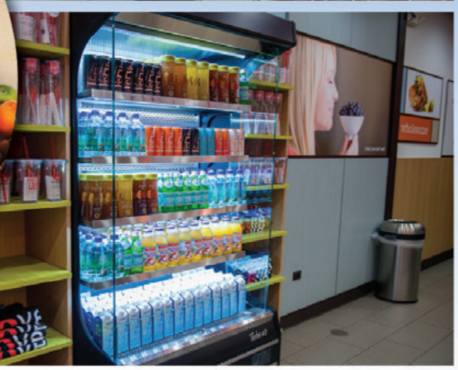

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Franchisees Rising

New relationships, collaboration needed

Dear Fellow Franchisees,

As this is my last letter as chair of the Multi-Unit Franchising Conference Advisory Board, I first want to take this opportunity to thank Therese and Gary for trusting me with the responsibility of the chairmanship and to thank the Franchise Update Media staff for their wonderful support throughout the year.

For those who attended this year's conference, I'm sure you have fond memories of the event,

which showcased amazing speakers such as John Maxwell and JB Bernstein—and our very own multi-unit franchisees who gave so generously of their time and talent to help the rest of us learn from their experiences. Rest assured, planning for the 2015 conference is well under way and the Advisory Board is again working hard to ensure that we have an even better event next year. You won't want to miss it!

Franchising is evolving at a rapid pace. What began as an industry of single-unit owner-operators and grew to multi-unit operators and then multi-brand operators, is evolving again. Several franchisees have become franchisors, many have done international deals, and this year I launched the first-ever multi-unit franchisee-sponsored private equity fund.

The rise of franchisees into sophisticated enterprises will necessitate a paradigm shift in the relationship between franchisees and franchisors. Collaboration between franchisees and franchisors will not be just a competitive advantage for a brand, it may be a question of survival. In the first half of this year alone, 200 new franchise brands were launched. Given this type of rapid growth, brands will need to adjust and adapt, and without franchisee input and support it will be very difficult for them to stay ahead of the curve.

At the same time, it seems as if the industry is under attack from legislative and regulatory authorities. Somewhere along the line, while we franchisees have just been "getting on with it," those in positions of authority have completely overlooked the impact we make. It's quite possible that franchisees, collectively, are the largest vocational trainer in the nation. And we don't charge our students, we pay them! But instead of recognizing and acknowledging the contribution we make in providing jobs, training, and creating opportunities for others to climb the economic ladder, we are often disparaged by lawmakers. This needs to be corrected through education. Franchisees must get active in public affairs and inform lawmakers of our contributions to the economy and to people's lives so they understand the unintended consequences of their policies.

Despite the hurdles, the entrepreneurial spirit that is the foundation of franchising is alive and well. Franchisees will adapt and grow, and by working together the industry will continue to forge ahead in providing valuable goods and services to the public.

Thanks to all of you who have provided me your support and good wishes during my tenure, particularly the Advisory Board whose wisdom was indispensable. I hope you will all join me in supporting our new chairman, Rob Branca, in making 2015 another great year for the Multi-Unit Franchising Conference. Thank you and God bless.

Regards,

AZIZ HASHIM
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Franchise Update Media's annual Multi-Unit Franchising Conference took Las Vegas by storm this spring, again setting records for both attendees and suppliers. Nearly 1,400 attended last April. More than 550 were franchisees, representing more than 400 franchisee organizations, more than 10,000 operating units, more than $10 billion in annual system-wide revenue, and jobs for more than 200,000 people. Mark your calendar for next year, April 8–10, 2015 at Caesars Palace in Vegas. For a look back on the 2014 conference, visit ***www.multiunitfranchisingconference.com/***

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✓ 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***

✓ CLOSE CALLS

"I believe that in any successful restaurant or business, the decisions are made as close to the customer as possible. I have to have the best people… and train those individuals so they have an awful lot of autonomy. I can't work for someone looking over my shoulder telling me what to do."

— David Gronewoller, President & CEO of GC Partners, operator of 12 Golden Corral restaurants in North Carolina, South Carolina, and Florida

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BY KERRY PIPES

Dominators Rule!

These multi-unit operators get it done

To celebrate and recognize their achievements, we again turn our annual focus to the multi-unit and multi-brand franchisees we like to call "Dominators."

They are determined to succeed and know how to get it done. They take on markets, competition, and the economy and keep on growing. They are fiercely competitive, want to be the best at what they do, and want the same from their management team and employees.

We've identified some great, savvy operators and are excited to bring their stories to you. We asked what drives them, what makes them tick, and what ticks them off. Each shares a unique tale of how they've traveled the rocky road to success, but all are united by hard work, hard knocks, and ultimate triumph.

This year's behind-the-scenes look at a group of thriving franchise owners tells us how—and why—they've made their business choices, how they've adapted to growth, and where they see themselves headed. Here's the starting lineup for this year's Dominators issue:

• **Gary Grace** was a big part of the beginning of this magazine 10 years ago, appearing in Issues I and II in the summer and fall of 2004, when the magazine was called *Area Developer*. This longtime Supercuts franchisee has opened more than 130 Supercuts salons in California, Hawaii, and New York (including six in one day). Today, at 72, he has 37 salons in Southern California. He's also been a leader for the brand's franchisees through some contentious years with the franchisor, serving as president of the brand's franchisee association and holding the franchisee seat on its corporate board. Outside the brand, he served as 2009 chair of the Multi-Unit Franchising Conference and continues as a member of its Conference Advisory Board.

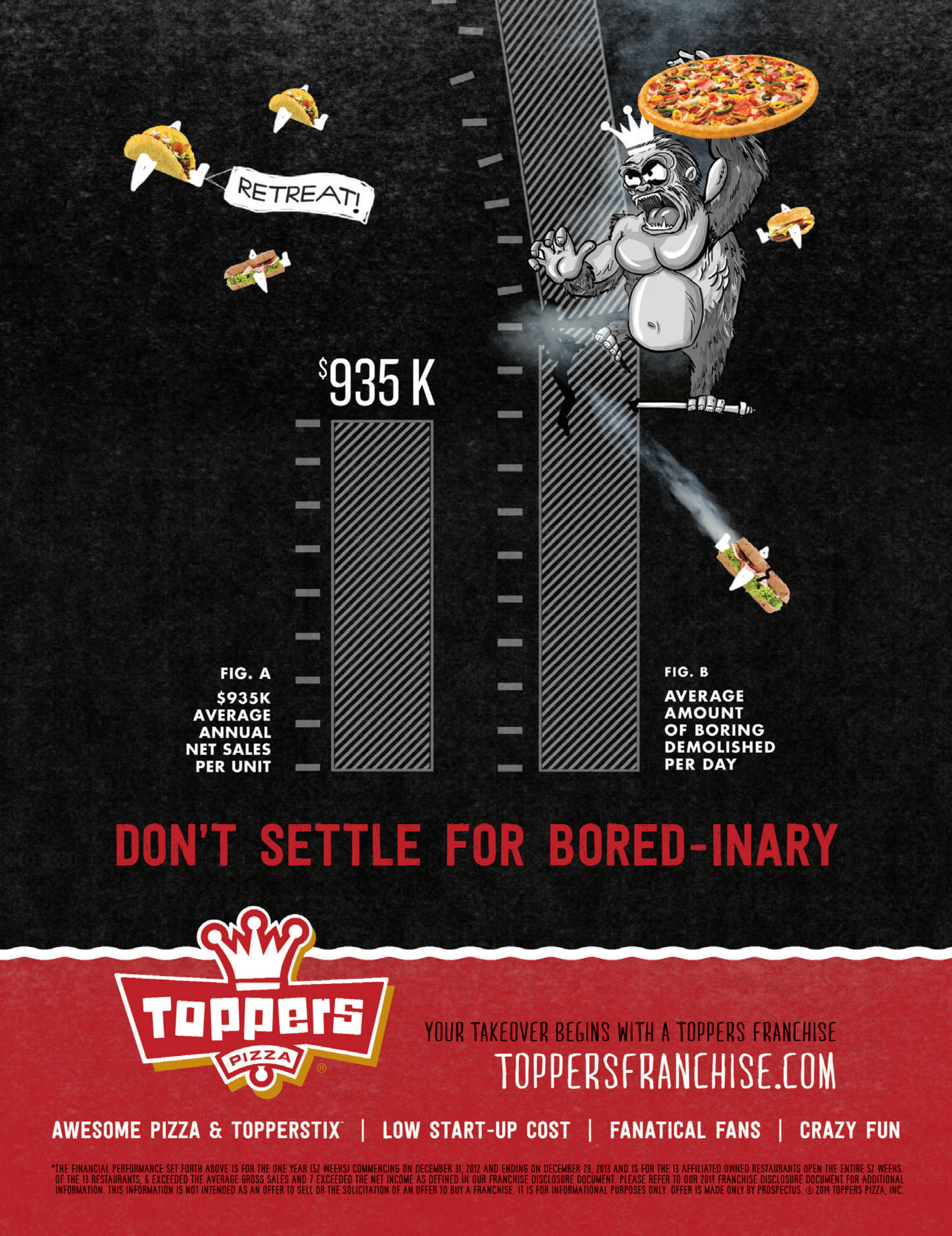
• **Jeff Tews** and **Susan Rather** are a dynamic duo. The married couple, who operate five BrightStar Care franchise territories, are among the brand's first franchisees and will soon be pioneering its newest endeavor, BrightStar Senior Living. Tews left the corporate world (banking and telecom) after more than 30 years, and Rather brought her experience as a medical technologist and lab manager at the local VA hospital. They've learned how to combine their strengths and are looking for more opportunities.

• **Don Smith** is a classic Dominator, and an eternal optimist. We're not talking about successfully operating a dozen or so units… we're talking 197 Valvoline Instant Oil Change locations, with more on the way—20 more, to be exact. In 2012, Smith orchestrated the purchase and successful rebranding of 72 EZ Lube oil change service centers in Southern California, the largest single acquisition in quick lube history. His success is built on a culture of "doing the job right, not taking short cuts, and treating your customers like gold."

• When **David Gronewoller** was asked to be part of this Dominators issue, the Golden Corral franchisee expressed sincere surprise. "There are a whole lot of people more deserving of this," he said. This "employee's employer" has two decades of franchise experience and makes community involvement a cornerstone of his operation. He runs 12 Golden Corral restaurants in Florida, has racked up numerous awards, served on boards, and kept his foot firmly on the growth pedal. He'll exceed $40 million in revenue this year and serve thousands of meals to those in need.

• **Alvaro Garcia** already has 21 thriving Jersey Mike's Subs locations in Southern California and is in the midst of an aggressive 70-store development plan. He and his partners expect to have 25 stores open by year-end, with 10 to 15 more per year in the pipeline. Garcia, who moved to the U.S. from Nicaragua when he was a teen, also operates a construction firm actively involved in the build-outs of his restaurants. He expects 2014 annual revenue to approach $30 million.

Following the profiles, check out this year's list of MSAs with the most franchised units, as well as the dominant franchisee organizations in each region and state. MUF



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BY EDDY GOLDBERG

Brand Champion

Veteran Supercuts franchisee reflects on 35 years

Gary Grace's life in franchising has been marked by several major achievements and milestones, including the following:

• Twenty-five years ago, in 1989, he was named the top franchisee in the country by *Inc.* magazine. "Since I believe they have not rerun the competition," he says, "I think I still am."

• Twenty years ago (1994–95), he worked with Supercuts to open 86 salons in the New York metro region, including 6 in one day, establishing the brand in a new market.

• Ten years ago, in 2004, he graced the cover of the second issue of this magazine (then mistakenly called *Area Developer* magazine. At least we got the tagline right: "Business solutions for the multi-unit franchisee.")

• Five years ago, in 2009, he served as chair of Franchise Update's Multi-Unit Franchising Conference.

But in the world of franchising, what he's done for Supercuts—and the people who have worked for him—shines the brightest. During his career, he's instituted or enhanced employee benefit programs, including performance incentives for all

NAME: Gary Grace

TITLE: Owner/CEO

COMPANY: GG Enterprises

NO. OF UNITS: 37 Supercuts

AGE: 72

FAMILY: Wife Jessica

YEARS IN FRANCHISING: 35

YEARS IN CURRENT POSITION: 34

"In 1989, *Inc.* magazine named me the #1 franchisee in America. Since, I believe, they have not rerun the competition, I think I still am."

employees, a management evaluation program, increased education and training at all levels including quarterly workshops for stylists, an annual awards event, and more.

The value—and longevity—of his senior managers was apparent 10 years ago, when we wrote: "*Grace has managed to retain his early managers for an extraordinarily long time. Five senior people (three operational and two administrative) have been with him more than 20 years. 'They really run the operations on a day-to-day basis,' he says.*"

In 2012, two of those veteran senior managers left his company, GG Enterprises. In response, Grace, at 72, has become more personally involved in the day-to-day operations of his salons. He's moved from his home in the Napa Valley (he closed the deal just days before the earthquake this summer), and has relocated to Palm Springs to be closer to his 37 Supercuts salons in

Gary Grace (2nd from right) with multi-unit franchisees John Prince, Bill Welter, and Rocco Fiorentino (L-R) on the cover of *Area Developer* in 2004.

Southern California. (In 2004, he had 33.)

And even though 10 years ago he said, "I like to think I'm semi-retired," Grace appears to be relishing his re-involvement—and so are his managers and employees. In fact, despite their decades of contributions and personal relationships, he calls the departure of those two senior managers a blessing in disguise.

"I'm in the salons much more, and I am at all management meetings. My senior management team tells me they really love it," he says today. Beyond the contributions from his 35 years in franchising and his long history with the brand, Grace says, "I think people just like to be able to relate to the owner. I hear a lot of feedback about that. I call someone and they call their general manager right away to tell them."

Senior management reports directly to him now, and the results are positive—very

PERSONAL

First job: Worked at an auto parts warehouse for 6 years during high school and college.

Formative influences/events: I took the est training in 1973 and it changed my life. Within 1 year of taking the training I had left corporate America to work for est. The whole experience allowed me to understand myself and other people better.

Key accomplishments: In 1989, *Inc.* magazine named me the #1 franchisee in America. Since, I believe, they have not rerun the competition, I think I still am. In the mid-1990s, Supercuts tapped me to do a joint venture with them to open up the New York metropolitan market. I opened 86 locations in 2 years, including 6 in one day, in order to meet Wall Street's expectation.

Biggest mistake: Selling my Hawaii locations.

Smartest mistake: Not selling my California locations even though I was offered 50+ percent more than the going multiple.

Work week: Usually every day, adding up to 40 or 50 hours a week.

How do you spend a typical day? Talk on the telephone and respond to emails. If I want to get anything creative done it has to be done before 9 or after 5. The alternative, which I really enjoy, is spending a day out in the field, either visiting a half a dozen or so salons or attending and participating in management meetings.

Favorite fun activities: Golf, reading, TV, playing cards, and drinking great wine with great friends.

Exercise/workout: Walking and water aerobics.

Favorite tech toys: A coffee table with gears that adjusts.

What are you reading? I almost exclusively read mystery books. The best one this year was *Suspicion* by Joseph Finder. However, I was so moved by John Maxwell at this year's Multi-Unit Franchising Conference that I broke my mysteries-only habit and read Maxwell's *The 5 Levels of Leadership*, which expanded my favorite quote by 3 levels.

Do you have a favorite quote? Managers get people to do, and leaders get people to want to do.

Best advice you ever got: Be nice to everybody because you never know who you will be working for tomorrow.

What gets you out of bed in the morning? Looking forward to another great day.

What's your passion in business? Developing people and watching them grow.

How do you balance life and work? I just make sure to not sacrifice either one for the other.

Last vacation: Lots of great minis, but the last big one was earlier this year to Myanmar, an amazing country previously known as Burma.

Person I'd most like to have lunch with: My best friend David Grieve who left this world before his time.

"I had only one month in the last 10 years when I was up 8 percent. Now I'm running 9.8 percent higher year to date."

MANAGEMENT

Business philosophy: Do the right things and the right things will happen.

Management method or style: I allow people a lot of space to run their own areas of responsibility.

Greatest challenge: All my salons are in California, the most litigious state in the union. Labor laws and workers' compensation are the bane of my existence.

How do others describe you? Energetic, fair, and stylish.

One thing I'm looking to do better: Be more organized and procrastinate less. Handling things just once would be a great step in the right direction for me.

How I give my team room to innovate and experiment: I usually say no first because I'm an old dog, but actually I am always open to new ideas and ways to improve our operations. We usually test first rather than do a company-wide rollout.

How close are you to operations? A lot closer the last couple of years than I was for the previous many years. A couple of very long-term senior management people left, and I have stepped back into the operations. Coincidentally, this all happened while I was in the process of moving from the Napa Valley to Southern California where my salons are, which made this transition much easier.

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

What I need from vendors: Fair prices and prompt delivery.

Have you changed your marketing strategy in response to the economy? How? Not really. Hair cutting is somewhat recession-proof. People always need to get their hair cut. Yes, we lose some to home hair cutting when times get tough, but then there are those who have been going to higher-price salons and find out that they like us just fine.

How is social media affecting your business? We would probably need to be more engaged to have it really affect our business.

How do you hire and fire? Hire only the best available people, and fire very carefully after a lot of documentation. Remember, we are in California.

How do you train and retain? We have an initial training program all stylists go through, and we follow up with quarterly seminars for all stylists. We always promote from within, and training for all levels of management is always going on.

How do you deal with problem employees? Document, document, document.

Fastest way into my doghouse: Have your facts wrong.

positive. He expects comp stores sales to be up 10 percent this year. That compares with about 1.5 percent over the past several years, and during the recession sales were "pretty flat," he says. "I had only one month in the last 10 years when I was up 8 percent. Now I'm running 9.8 percent higher year to date." One reason, he says, is that part of his current involvement is increased training for his second-tier managers. (His GMs oversee a group of 10 to 12 salons; then come the salon managers and then the shift managers.)

"We've done a lot more training and it's beginning to pay off," he says. "It's really working. They're feeling more empowered and are taking on more responsibility as a result." Because of the additional management training and education, the shift managers are more deeply involved in running the salons—which, he says, boosts morale and ripples down to his front-line staff: the stylists.

BOTTOM LINE

Annual revenue: $14 million.

2014 goals: 10% same-store growth over last year.

Growth meter: How do you measure your growth? Same-stores sales.

Vision meter: Where do you want to be in 5 years? 10 years? Constantly improving. Constantly growing.

Is capital getting easier to access? Why/why not? We do not borrow. We finance from cash flow.

How are you handling rising employee costs (payroll, healthcare, etc.)? So far raising prices, and working on better scheduling and efficiency.

How do you reward/recognize top-performing employees? Performance-based bonuses for all employees, and incentive trips at the management level.

What kind of exit strategy do you have in place? I am going to die in the saddle and let someone else worry about it.

Grace has also been a longtime champion for the brand's franchisees. Through his leadership role in their franchisee association, he helped lead them (and himself as well!) through several challenging times in the 1980s and 1990s as Supercuts went through three different ownerships. He has continued to help lead the system as president of their franchisee association and chairman of their advisory council for the last 16 years.

The 1989 *Inc.* article announcing his selection as the top franchisee in America reported that: "Today Grace is the Supercuts superstar. He's been elected to every board or advisory committee his fellow franchisees have, from president of the franchisee association to the franchisee seat on the corporate board of directors. His franchisor praises him as 'a pioneer' and now includes much of the Grace evaluation system and product sales program in the corporate package it sells." MUF

BY HELEN BOND

Caring Couple

Longtime BrightStar Care franchisees flourish

Jeff Tews and Susan Rather were married for just a year when they entered a new venture as franchisees in the home care field. The pair, who met on a Multiple Sclerosis charity cycling ride, make quite a team. Together they own five BrightStar Care locations through their Madison, Wisc.-based company, which consistently performs at the top of the brand's franchise chain.

"We knew we had great communication, but we sure didn't want to mess anything up," says Rather. "We went in with eyes wide open. The advice we got from other couples was to clearly define who is going to do what. Over the years, we have melded that a bit."

Tews, after 33 years in the banking and telecom industries, was seeking a change of pace from the corporate world. Rather, a medical technologist and lab manager at the local Veterans Administration hospital, wasn't looking for a new job when she accompanied him on a 2006 discovery trip to BrightStar headquarters in Gurnee, Ill. As they began to study the BrightStar franchise model, which called for hiring a branch manager with skills that matched her own, her mindset began to change. On the drive home from their second trip to Gurnee, they decided to launch the business together.

Thanks to their passion for the home care business, the future looks bright for the couple—who expect to be the first franchisee of the new BrightStar Senior Living concept when the company begins franchising its assisted living and memory care facilities.

"It is a great opportunity to be able to have that continuous living option available for our families and our clients when they can no longer stay at home," says Tews. No matter how their next chapter unfolds, you can bet the journey will be taken together. MUF

NAMES: Jeff Tews and Susan Rather

TITLE: Owners

COMPANY: BrightStar Care

NO. OF UNITS: Five (4 in Wisconsin, 1 in Minneapolis)

AGE: Jeff 62, Susan 53

FAMILY: Two adult children, 2 cats

YEARS IN FRANCHISING: 7.5

YEARS IN CURRENT POSITION: 7.5

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*AUV represents the Top 25% of our stores which were open for all of 12 months of 2013 as stated in Item 19 of Our Franchise Disclosure Document (FDD). This represents 10 of 42 stores.

"Our full-time staff are thinking and solving problems like franchise owners."

PERSONAL

First job: Jeff: My dad owned and operated gas stations. When I was about 13, I pumped gas and trained the 17- and 18-year-olds who came to work there. That's when I first began to acquire and learn management skills. **Susan:** I worked in a hospital kitchen in the dietary line and prepared food and trays for distribution. I was there all through high school, and it's when I was introduced to the field of healthcare. My appreciation and understanding of healthcare grew from there.

Formative influences/events: Jeff: After 33 years of corporate experience I got to a career change opportunity at U.S. Bank that gave me time to stop and reflect about what to do with the next phase of my career. During my time at U.S. Bank, I traveled a lot and wanted more control over company culture and employee engagement than I had in other jobs, and I was really not interested in a weekly travel schedule any longer. During this time, I met with a franchise broker who helped me realize that I didn't want to invent a brand myself. A personal experience of being a distant caregiver to my mother, who at the time had mid-range Alzheimer's, led me toward in-home care as a business opportunity. I clearly understood the family issues that can exist and the frustrations of someone trying to find quality care, so I decided to invest in BrightStar Care.

Key accomplishments: 1) As owners of BrightStar Care, we have built a wonderful employee-engaged culture where our full-time staff of 33 are thinking and solving problems like franchise owners, and talking to customers in a way where they're acting like owners as well. 2) By instilling this culture of employees acting like owners, it makes our job easier. 3) We currently have 2,500 shifts per week being coordinated across five offices. 4) We have had the #1 franchise since we started keeping track and have been Franchisees of the Year two times. 5) Jeff is currently a member of the IFA Board and Executive Committee, and also serves as chair of the Franchisee Forum.

Biggest mistake: We view "mistakes" as opportunities for learning and improvement. We can't say we can think of one at the moment.

Smartest mistake: When looking to change careers, the question "What about franchising?" came up. After talking with a franchise broker, it was clear that he enjoyed and excelled at taking existing systems and making them better.

Decision you wish you could do over: We entered into a contract that at first glance appeared to be a good decision, and ended up learning it wasn't a proper fit or match. The contract didn't align with our business's core mission and values, and it detracted from the customer-centric focus we've made an effort to emphasize.

Work week: Our work weeks are very different. **Jeff:** I continue to hold on to the finances. I spend some time each day working on bonus plans, financial planning, financial forecasting, and tracking results. I'm the numbers guy from a financial perspective. I also spend time talking to difficult customers or taking a new customer and going on a living room visit and immersing myself with the work itself occasionally. **Susan:** Our days are spent outside the office traveling to other offices and networking. I am not engaged in the day-to-day field staff and management, but rather being there as an advisor to the staff we have. I look at operational numbers a lot and provide data feedback to our staff: what we're billing, how many shifts we have open, how many we have filled. I oversee the business dashboard and walk the employees through that every week so they can see how the things they do affect the business.

Favorite fun activities: Aside from cycling and traveling, the actual planning we do for the adventures we take is fun. We have as much fun planning as we do venturing out on our excursions, which are also usually off the beaten path.

Exercise/workout: Jeff: We both enjoy cycling. It's something we're passionate about doing for our own pleasure, but also for our health. Additionally, I like to walk to the gym that's close to our home and work out there. **Susan:** As Jeff said, we enjoy cycling very much and it's a big contribution to our health and exercise regimen. I also find enjoyment in running and doing yoga.

Favorite tech toys: Jeff: Recently I've been enjoying our Apple TV and plunking down with my iPad to watch movies and view photos on our TV. I enjoy the ability to order movies with Apple TV. It's quite convenient. **Susan:** I'd have to say it's my Fitbit. At the end of each week, it provides me with a report card of my results. Jeff has one too, so there's sort of an unspoken competition between us each week.

What are you reading? Jeff: At the moment, I'm reading two books. One I would call my "work" book, and that is Gino Wickman's book, *Traction*. I've really embraced it and included the entire team as well, through our very own book club. The other book I'm reading for fun is a part of Spencer Quinn's series of Chet and Bernie mystery novels. They are books that tell stories from a dog's perspective and lead the reader through the journeys they go on. **Susan:** My "work" book at the moment is *Conscious Capitalism* by the founder of Whole Foods, John Mackey. The book I'm reading for personal pleasure is *Top Secret Twenty-One*, part of the Stephanie Plum series by Janet Evanovich.

Do you have a favorite quote? Jeff: A fellow I once worked with didn't have patience for people who complained, and when they would say, "It's not fair!" he would respond with, "Fair is a place you take a pig." That's a quote I admire and one that makes me laugh. **Susan:** "There is no try. Only do or not do." That's a quote from Yoda in the second "Star Wars" movie.

Best advice you ever got: Susan: From my father after I went through an ethical challenge. He told me to look into the mirror and reflect on my personal integrity. **Jeff:** My former boss helped me realize that, often, there are many solutions that can work, but the best solution is the one the team embraces. That's something that's always stuck with me and that I incorporate into our business.

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PERSONAL, *CONTINUED*

What gets you out of bed in the morning? Susan: The cats crying! **Jeff:** I absolutely love this work. I'm excited about the way my brain processes information overnight, and when I wake up in the morning it gives me clarity, which I always jot down before getting up.

Last vacation: This summer we traveled by car to Montana for four weeks and cycled for 11 days through Yellowstone and Grand Teton National Parks. The experience was unlike any other. Being exposed in the environment while cycling through the park with the risk of meeting a grizzly was intense, but worthwhile. It was amazing and we saw the parks through a unique lens. Also during our four-week vacation, we spent 7 days cycling for the National MS Society through their fundraising bike ride.

Person I'd most like to have lunch with: Jeff: My dad. He passed away 22 years ago, and since then my perspective has changed so much and is very different. I'd love to be able to sit down with him and share that.

What's your passion in business? The rewarding sense of helping families and creating great jobs. There are very few places where you'll be able to make the kind of decisions and influence the direction of the business like you can do here.

How do you balance life and work? As a husband-and-wife team, we can go home at night and continue to work and talk about it and it does not feel like work. Our work is our passion, and to have our business do well and have happy employees is all that matters. We work hard at taking time off, and we can do that by empowering the employees to take ownership. We've taken a number of long bike rides. We took another one for a month this summer, and while we were away we checked in every day and watched our emails.

MANAGEMENT

Business philosophy: We believe in employee empowerment, engagement, and transparency. Our employees see all of our numbers and have their own numbers. We did a book club with 9 or 10 key employees. We found that with Susan's weekly dashboard feedback and the empowerment we provide to our employees, we are in a good place. We have areas where we can improve, but our management method/style is one of employee ownership and engagement. We have a flat organization. No promotion opportunities.

Management method or style: See above.

Greatest challenge: Field staff engagement. We have a great handle on our management team or full-time staff team, but we have 500 caregivers (nurses and CNAs). Keeping them understanding the mission and their role is the biggest challenge we have. Getting them to understand why they're in the home, why it's important to be on time and provide good care is also a challenge.

How do others describe you? Susan: I think as positive, and that I have the ability to work through details and processes, which makes Jeff and me a great match, supplementing each other where the other might not thrive. **Jeff:** I would say as more driven than I know and more intense than I want to come across. Also, they would say I'm a visionary who's also compassionate.

How I give my team room to innovate and experiment: Jeff: I think this goes back to my best advice and encouraging participation among the team and decisions. We've cultivated a culture that allows room for mistakes. One thing we picked up from Shelly Sun (BrightStar co-founder) is the concept of "1.3.1": (1), a clear definition of the problem; (3), three options for solving the problem; and (1), one recommendation for the best solution out of the three options. **Susan:** I've engaged the team in strategic planning for the past 6 years and have included them in helping contribute to the vision we have for 3 years from now. I'd like to engage them in more of that planning and in the steps it takes to get to the vision.

continued

"Our work is our passion, and to have our business do well and have happy employees is all that matters."

MANAGEMENT, *CONTINUED*

One thing I'm looking to do better: We'd like to implement some of the teachings we've learned in Gino Wickman's book *Traction* by having and holding regular accountability to the commitments we make.

What I need from vendors: Jeff: I speak with many vendors, and something that's very important to me is that they need to have the patience and commitment to truly understand our business and what we need, rather than just trying to sell me on the product. I need vendors to take the time to understand what we really need. **Susan:** A couple of years ago, we switched to a smaller bank because of the steps they took to understand what we needed from them and how they could help and elevate our business. Since then, we've seen so much more success in our business, and it's due to the fact that their focus was there as well as their understanding and commitment.

How do you hire and fire? Hiring is done through a group interview process, and the key stakeholders are always involved, whether it's individuals from management or other teams. If they will be working directly with the new hire, they also will be involved in the hiring process. We use the entire team's input. Also during our hiring process, we really spend a lot of time talking about our culture and putting ourselves on display. We are looking for an individual who is a cultural match with characteristics that include a compassionate spirit and an eagerness to learn and be there. The firing process involves individuals who don't demonstrate the company's culture, and who don't show compassion with their peers and subordinates. Many times, it's the individuals who fire themselves.

How do you train and retain? We train our staff in the office and with a mentor or peer. BrightStar corporate provides us with tools integrated through our intranet system to help our staff in the training process. New employees could spend up to two months at our office before they take a week of "boot camp" training. For retention, we give a lot of autonomy to our employees and provide our staff with a full benefits package. So many people have created their own paths and determined the value of their work. Therefore they either capture it or they don't.

Fastest way into my doghouse: Jeff: If you don't take accountability for your actions. **Susan:** When people don't respect or value their field staff.

How close are you to operations? Jeff: I am out of the day-to-day scheduling, hiring work, and operations, but still on a close basis with the general manager level. I am very much in touch with daily issues that occur—problem-solving, looking for new opportunities, representing the business on a broader scale—and I am out there in the community promoting the business.

What are the two most important things you rely on from your franchisor? With 2,500 shifts a week and 500 caregivers and 450 clients, if we don't have a good business system we're in big trouble. The most important thing we get from BrightStar corporate is a great business system. The system and support is the first thing, followed closely by the national account relationships. The way the franchisor facilitates best practices from across the country from our fellow franchisees is also vitally important. We have a great web presence that would be costly for us to do and maintain on our own.

Have you changed your marketing strategy in response to the economy? How? We thrived during the down economy. We had 60 percent growth in 2008 and 40 percent growth in 2009. Our marketing strategy is one-on-one trust-building with referral sources and we really haven't changed that.

How is social media affecting your business? I don't know if it is affecting us positively or negatively because it is hard for us to measure that. The base of our business is a trusting relationship with a referral source. The decision process around home care is a trust decision. We're recognizing that people will validate you on social media and web pages and the comments they're making about you. I believe these people are still going to go to those they trust and ask, "Who should we use?"

How do you deal with problem employees? We strongly believe that it's important to set clear expectations from the start. From there, if the employee fails to meet those expectations, we then have to determine if we need to have a conversation about retraining or if it is behavioral. We can then make a decision on what to do. This is my favorite part about owning my own business. We're fair, and we're quick.

BOTTOM LINE

Annual revenue: $9 million.

Growth meter: How do you measure your growth? In different ways: 1) top-line revenue; 2) number of clients and client hours served; and 3) how many clients do we serve and what are we doing relative to top-line revenue—and as a franchisee, bottom-line revenue. Top- and bottom-line revenue need to stay in balance.

Vision meter: Where do you want to be in 5 years? We're going to be the first franchisees with the new BrightStar venture of assisted living and memory care communities—BrightStar Senior Living. We hope that in 5 years we have a strong support of the model where providing care for clients in their homes builds trust so that when people are no longer safe or satisfied in their home and want to move to a community, they choose BrightStar Senior Living. We have a thriving continuum of care. **10 years?** As crazy as it may sound, we still want to be engaged in the business at the general manager level.

How is the current economy affecting you, your employees, your customers? We have seen a tighter market on employees, but it is not just the economy driving this trend. The growing number of seniors, the amount of care needed, and the increasing demand for caregivers is probably bigger than anything to do with the economy.

continued

"The need for care will provide incredible opportunities, so there's no good way to forecast what kinds of innovations and changes may need to take place."

BOTTOM LINE, *CONTINUED*

How do you forecast for your business? We look at past results and historical data, but it is very hard to determine how much a market can take. The numbers are so overwhelming about what's going to happen to the number of people needing care in the coming year. The need for care will provide incredible opportunities, so there's no good way to forecast what kinds of innovations and changes may need to take place. There are changes on the horizon, but we will cross that bridge when we get there.

Is capital getting easier to access? Why/why not? We haven't had a need for capital. We have a strong relationship with the bank for A/R funding and we haven't had a problem with our steady financial history. It has not been a problem for us.

Where do you find capital for expansion? From the business and from local banks.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We have used local banks based on relationship management and our relationship with the local banker.

Are you experiencing economic growth in your market? We've experienced phenomenal growth. We started in late 2006 and were in the business for about 2 years before the economic downturn happened. However, we've only seen increases each year, regardless of the status of the economic downturn.

What did you change or do differently during the economic downturn that you are continuing to do? Our reputation has been strong since we've opened, and the economic downturn didn't really strike retirement plans or seniors in the market. There has been, and continues to be, a demand for in-home care, especially with the Baby Boomer population entering the market. That contributes to our ability to overcome the challenges.

How are you handling rising employee costs (payroll, healthcare, etc.)? To make our health insurance premium "affordable," we have set up a Health Reimbursement Account (HRA) through which we will fund the first $500 of an employee's $1,000 deductible.

What are you doing to take care of your employees? We provide them with a high degree of autonomy and decision-making with their customers and employees, which gives them a high sense of ownership. Our branch managers have P&L accountability. We offer paid time off for full-time field employees, and we are trying to provide a 401(k) to field employees who work more than 20 hours. We even gave one employee a raise just to get her into a 401(k). We offer many continuing education opportunities and a scholarship program for everyone. We also send out gift cards and birthday cards to all staff that includes a $10 to $25 gift card.

How do you reward/recognize top-performing employees? We have a self-funded bonus plan for full-time staff. This includes revenue, gross profit, and individual goal components. We also have a field employee "Big 10" program to recognize employees who have extraordinary customer service. (This is related to getting a 10 on a Press Ganey score.)

What kind of exit strategy do you have in place? Our exit strategy is more of a migration process to continue enabling managers to take on parts of our business and work. It may mean that somewhere along the line we get a general manager, but we don't have an exit strategy.

BY HELEN BOND

21 Going on 70

Taking a big leap with Jersey Mike's Subs

Alvaro Garcia epitomizes the proverbial American dream. With 21 Jersey Mike's Subs locations in Southern California already under his belt, Garcia is in the midst of an aggressive 70-store development plan that matches an equally fierce work ethic.

The youngest of 10 children, Garcia was a teenager when he came to the United States from Managua, Nicaragua. He watched his single mother work ceaselessly at three jobs, seven days a week, including 12-hour shifts at a hospital on the weekend.

"She taught me to be honest, work hard, and not to depend on others," says Garcia, who got his start in the restaurant business (and his first job) at age 18 as a Domino's Pizza delivery driver in Alhambra, Calif. Within a year, he was managing that store and moved up the ranks quickly, first to supervisor and then to district manager. Opportunity continued to knock, and he became a franchisee.

"I came from a country where there was not a lot of opportunity," Garcia says. "In the U.S., it is clear that if you work hard for something you can make it happen."

And Garcia knows how to make it happen. When first contacted for this profile,

NAME: Alvaro Garcia

TITLE: Principal

COMPANY: Jersey Mike's Subs, dba Lilelu

NO. OF UNITS: 21 Jersey Mike's

AGE: 42

FAMILY: Wife and three boys

YEARS IN FRANCHISING: 7

YEARS IN CURRENT POSITION: 3

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"What I preach to my own guys is that I started from the bottom and you guys can do it as well."

Garcia had a development plan to open 50 Jersey Mike's stores. By the time the story wrapped, his plans had expanded to 70 sites. And his energetic, hands-on approach is perfectly suited to Jersey Mike's philosophy of recruiting owners who also are operators.

When Hoyt Jones, president of Jersey Mike's and a former Domino's executive and franchisee, invited Garcia to check out one of the sub stores in Los Angeles County, Garcia had no intention of investing in a second franchise brand. At the time, he was busy with his own Domino's stores, and business was booming for his painting and construction contracting company. Nevertheless, Garcia was immediately drawn to Jersey Mike's product, customer service, store image, and commitment to the community. His eagerness to gobble up franchise territory would make new inroads in the brand's quest to expand on the West Coast.

"I wanted to jump in," Garcia says. "At the time, Pete [Peter Cancro, Jersey Mike's founder and CEO] had never signed 10 stores." Garcia opened his first Jersey Mike's in Rancho Cucamonga, Calif., in June 2011, the first of three stores he opened in a month.

Earlier in his career, when Domino's Pizza stores became available to franchise, Garcia recruited his co-workers—many longtime Domino's employees—to form a corporation for a 22-store portfolio so "everyone" could benefit from the $7 million deal. He did "everything from A to Z" to help the group succeed and eventually stepped back, keeping seven stores for his own. Garcia is proud of his self-made status and works with equal enthusiasm to mentor anyone who will listen.

"In the old days at Domino's a lot of people wanted to help me, but I wanted to do it myself. I worked 18-hour days, whatever it took to get the job done," says Garcia. "What I want people to know is that they can do it. What I preach to my own guys is that I started from the bottom and you guys can do it as well. Let me know the day you want to do it, and I'm here to help."

In 2013, he sold his seven Domino's franchises to focus on Jersey Mike's and has never looked back… except to regret not investing in the brand earlier. Garcia and his business partners (Victor Fiss, Joe Sanchez, and John Thomas) expect to have 25 stores open by year-end, with 10 to 15 in the pipeline annually in the coming years.

PERSONAL

First job: My first job was in the restaurant business at age 18. I was a Domino's Pizza driver.

Formative influences/events: My mother—a single mom who worked three jobs. She taught me to be honest, work hard, and not to depend on others.

Key accomplishments: I became a Domino's Pizza store manager in Alhambra, Calif., within the year, still 18 years old.

Biggest mistake: Not knowing about Jersey Mike's earlier in my life because I love this brand for its quality (being "A Sub Above") and its involvement with charity and the community.

Smartest mistake: Signing to develop 45 Jersey Mike's units. I was fortunate to sign up early as interest by other parties ramped up afterward and many more people also became interested in signing franchise deals with Jersey Mike's for 5 to 10 units. I came in at the right time. Sometimes you just have to take the risks.

Decision I wish I could do over: Investing in this brand earlier/sooner.

Work week: Six days.

How do you spend a typical day? The first half of the day I am in the office. I spend the rest of the day in the field. All my time in the field is spent in the stores, looking at the needs and operations of each.

Favorite fun activities: Watching sports, especially soccer. You can say I'm a sports junkie (my wife definitely thinks so). I enjoy spending time with friends.

Exercise/workout: I walk every day for one hour with my German Shepherd Lucca.

Favorite tech toys: iPod for iTunes.

What are you reading? Restaurant magazines.

Do you have a favorite quote? "Do not go where the path may lead. Go instead where there is no path and leave a trail." (Ralph Waldo Emerson)

Best advice you ever got: Work hard, but work even smarter.

What gets you out of bed in the morning? Fixing breakfast for my boys, ages 15, 10, and 7. My expertise is in making eggs, sausage, hash browns, and pancakes.

What's your passion in business? Excellence in leadership. I believe you lead by example. People have to see you shine by your behavior and your action and, hopefully, will emulate that.

How do you balance life and work? I don't. I'm working on it.

Last vacation: Champions League final in Portugal.

Person I'd most like to have lunch with: FC Barcelona soccer player Lionel Messi.

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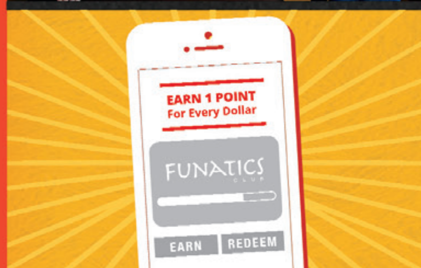

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Garcia still operates his construction firm, which is actively involved in all the build-outs of his restaurants. "We have gone through Jersey Mike's approved contractor class to ensure we meet the quality standards of the company," he says.

Garcia is bullish on the future as he reaps the benefits that accompany the solid infrastructure he has in place. "The stronger and bigger you get, the more control and say you have," says Garcia, who also serves as president of the co-op board for Southern California.

Garcia says that he always felt his time for success would come if he continued to work hard. And on any given day that he is on site, you can find him sweeping floors or cleaning tables. MUF

"I teach my teams to focus on three things: great smiling, great customer service, and great subs."

MANAGEMENT

Business philosophy: Honesty implies integrity. I try to influence everybody to be their very best, regardless of the position they hold in the company.

Management method or style: Delegate, delegate!

Greatest challenge: Finding balance. This is because I am passionate about all that God has blessed me with: success, my family, and great friends.

How do others describe you? Multi-tasker.

One thing I'm looking to do better: Restructure the company's administration.

How I give my team room to innovate and experiment: I meet with my team once a month to hear ideas for better results.

How close are you to operations? Very involved. I also work with three great partners to develop the Jersey Mike's Brand: Victor Fiss, John Thomas, and Joe Sanchez.

What are the two most important things you rely on from your franchisor? Support and a great partnership.

What I need from vendors: Quality and efficiency.

Have you changed your marketing strategy in response to the economy? No.

How is social media affecting your business? Social media is a great tool. It makes it very easy to find us. We do blast texting and have an email club. We also show our products and engage as a company on Instagram, Facebook, and Twitter.

How do you hire and fire? Hire by using Craigslist. Fire by following procedures.

How do you train and retain? I train systematically and retrain periodically.

How do you deal with problem employees? With very little tolerance.

Fastest way into my doghouse: Act with lack of character.

BOTTOM LINE

Annual revenue: Close to $30 million expected in 2014.

2014 goals: Open 10 Jersey Mike's locations.

Growth meter: How do you measure your growth? By the number of stores we open every year.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, I would like to be almost done with the first phase of opening about 45 great Jersey Mike's stores, and in 10 years development will be complete with 70 locations.

How is the current economy affecting you, your employees, your customers? In a positive way! We have managed to turn it around for our good. I teach my teams to focus on three things to ensure a terrific customer experience: great smiling, great customer service, and great subs. This helps us win and keep our customers.

Are you experiencing economic growth in your market? Definitely! We offer a sub above, a great quality product.

What did you change or do differently during the economic downturn that you are continuing to do? Saving in ways that do not affect our business, but that help us grow and improve. We focus on controlling food and labor costs while still ensuring a fantastic experience for our customers.

How do you forecast for your business? Lots of growth, expansion, and success.

Is capital getting easier to access? Why/why not? Yes, capital comes easier when you reach at least $1 million in EBITDA.

Where do you find capital for expansion? Financial institutions and investors.

Have you used private equity, local banks, national banks, other institutions? Why/why not? Yes, we have used private equity because it was a large development.

What are you doing to take care of your employees? Health insurance and 401(k)s.

How are you handling rising employee costs (payroll, healthcare, etc.)? Like everybody else, we are raising our prices to maintain balance.

How do you reward/recognize top-performing employees? Bonuses, vacations, tickets to sports events.

What kind of exit strategy do you have in place? I don't have one at this time!

BY HELEN BOND

Winning Hearts

Keeping it simple at Golden Corral

When David Gronewoller was asked to be part of this "Dominators" issue, the Golden Corral franchisee expressed sincere surprise. "There are a whole lot of people more deserving of this," he replied.

President of GC Partners, a Winston-Salem-based company that owns and operates 12 Golden Corral locations in North Carolina, South Carolina, and Florida, Gronewoller is an employees' employer. With more than 20 years of franchise experience, he believes "more in the man than the method" in overseeing his family-style restaurants. This people-centered formula success has spilled over into the neighborhoods his restaurants serve.

Gronewoller's commitment to the community is far-reaching: in 2013, his restaurants served and delivered 1.1 million fresh meals to senior citizens in five counties. It's also personal: when his mother was battling pancreatic cancer under home

NAME: David Gronewoller

TITLE: President & CEO

COMPANY: GC Partners

NO. OF UNITS: 12 Golden Corrals

AGE: 61

FAMILY: Wife, Donna and five children: son Brian and wife Morgan; son Keith and wife Suzanna; daughter Ashley and husband Davey; son Brendyn and wife Stephanie; son Nathan; 9 grandchildren.

YEARS IN FRANCHISING: 21

YEARS IN CURRENT POSITION: 21

In 2013, his restaurants served and delivered 1.1 million fresh meals to senior citizens in five counties.

hospice care, Meals on Wheels delivered food to the family's Colorado home. His mother signed on for the service as a paid participant to ensure that her husband would eat at least one nutritious meal a day after she was gone. But when Gronewoller came to visit, he noticed his father threw out most of the delivered meals because it "looked horrible, was way overcooked, and smelled worse."

When the opportunity arose to bid to be a meal provider in his own community, Gronewoller knew he could do better. He estimates the program, which provides fresh, high-quality prepared, packaged, and delivered meals priced below the company's cost, loses $150,000 to $180,000 annually—a negative financial proposition that is winning the hearts of those it serves. Because of the reduced

PERSONAL

First job: Dishwasher at a Sambo's in Phoenix.

Formative influences/events: My first job. Don Bowen, the restaurant manager and partner, asked me if I wanted to learn the business or make a higher hourly wage. I chose to learn the business. He worked me at minimum wage, 18 hours a day (many not paid), 7 days a week. I learned the business from him and was in management training 9 months later!

Key accomplishments: Putting all my children through college—with no debt. The work we do with local charities, most especially Senior Services and Meals on Wheels. In 2013, we served over 1.1 million meals to needy seniors in our community. My very first restaurant, which was part of a chain of over 700: in 21 months, we moved from one of only three restaurants losing money to the third most-profitable restaurant in the chain. Starting GC Partners in 1993. Selected as the North Carolina Restaurateur of the Year by the members of the North Carolina Restaurant & Lodging Association in 2004; and serving on the board of the most effective association of its type in the country for 18 years, including chair in 2006. Helping one of my general managers become a now very successful franchisee. Being the first franchisee to win Golden Corral's Caring Culture Award.

Biggest mistake: Developing a fast-casual Mexican brand franchise in the Carolinas. When I go to work every day it is to operate the best damn restaurant there is in each market we serve, not improve their brand value to go public. We had several locations that we leased. We sold the leased locations, closed the restaurants we owned, and sold the properties after a few short years!

Smartest mistake: This really wasn't a mistake, because I knew when I said it that I would get fired, but it needed to be said: The president of a company owned by IMC (Golden Corral's parent company) terminated my employment after I gave him my opinion of a decision he made. (Yes, I used some really bad words during a staff meeting that I shouldn't have.) Before I could even get out of the building, a Golden Corral exec ran me down in the hallway. He wanted to talk to me about joining GC. I said, "No." I didn't want any part of it. They continued to call, but I had no interest. A couple of weeks later James Maynard (Golden Corral's founder) made sure that I received compensation he thought I was owed, but had been told I would not get. He certainly didn't have to. Heck, I didn't think he even knew about it. As a result, I decided that this was the type of individual I was looking for in my new employment search and went back to talk with Golden Corral. This happened 30 some years ago!

Decision I wish I could do over: Finish college. Because of that, my kids did not have a choice.

Work week: Monday through Saturday (sometimes Sunday).

How do you spend a typical day? Up at 5:15 a.m., coffee, check email and reports, and plan my day. I am in the office by 7 a.m. to make calls/meetings, then try to get out to the restaurants.

Favorite fun activities: Sailing in the British Virgin Islands, hunting, and Beach Week with all my family—five great kids with three wonderful daughters and sons-in-law and nine grandkids (for now).

Exercise/workout: Let me get back to you on that!

Favorite tech toys: Not sure I have many. iPhone, iPad, I guess.

What are you reading?: *George Washington's Secret Six*. I just finished *I Am Malala.*

Do you have a favorite quote? "I want to be all used up when I die." (George Bernard Shaw)

Best advice you ever got: Don't ever, ever, ever give up!

What gets you out of bed in the morning? People who rely on me.

What's your passion in business? To make a positive difference in the lives of my employees and customers every day.

How do you balance life and work? I'm not sure I do. By nature I want things (everything) done right—accurate, timely, efficient, and effective. If there is something not fitting into those parameters—work or personal—it's on my mind.

Last vacation: A private sailing charter in the BVI with our last two graduates and new daughter-in-law in May; a week in Argentina hunting with a couple of great friends in June; then Beach Week with all our family in August.

Person I'd most like to have lunch with: Pastor Philip McLain, the man I most wish I could be like; and Ronald Reagan if he were alive.

"I have to have the best people, and train those individuals so they have an awful lot of autonomy."

price, the county's senior services organization has been able to provide as many as 36,000 additional meals, reaching up to 7,200 more elderly residents each year than the previous provider had.

Gronewoller says the company's community projects aren't done for recognition. In fact, he says, he didn't even realize the impact the effort has until he delivered meals himself. The real value to the community, he says, are the connections the volunteers make with those who open their doors.

"The biggest thing is not providing them with nutritious food, it's that somebody sees them and says 'Hi' every day. That is the important thing," he says. "They smile and they're glad to see you. You acknowledge that they are a human being. It makes you want to cry."

Gronewoller, former chair and board member of the North Carolina Restaurant & Lodging Association and 2004 recipient of its Restaurateur of the Year award, takes the same thoughtful approach in his restaurant operations. His goal is to hire the best general managers, pay them what they are worth, and let them do their jobs.

"I believe that in any successful restaurant or business, the decisions are made as close to the customer as possible," he says. "I have to have the best people, and train those individuals so they have an awful lot of autonomy. I can't work for someone looking over my shoulder telling me what to do."

His foray into the restaurant industry began like many—out of necessity. Gronewoller, whose father was an economics professor and mother a librarian, dropped out of college in Colorado at age 19, "before I got kicked out," he says. "I

MANAGEMENT

Business philosophy: Do the right thing well, giving thanks to God for the opportunities given to us!

Management method or style: Very simply put, we want the right decisions made at the right time, at the closest level to our customer. So we hire only the best, most talented managers, clearly communicate expectations, and let them manage!

Greatest challenge: Challenging my people at a higher level every year. Our shortest-term general manager has been with us for over 10 years, I believe.

How do others describe you? Diligent.

One thing I'm looking to do better: Spend less time behind my desk and more time with my family and in the restaurants.

How I give my team room to innovate and experiment: As in any business, especially a franchise, there is a foundation we must operate within. So inside that I'm open for anything that will make our business grow and operate better. Our people are very good at that!

How close are you to operations? Very close.

What are the two most important things you rely on from your franchisor? Protect and execute the brand successfully and use the experience in its franchise community to do this.

What I need from vendors: A partnership. We need each other to stay in and grow our businesses. When we work together, improving product, efficiencies, expectations, and quality, we can do that far more profitably. In line with this, we continue to shop the market to keep everyone honest.

Have you changed your marketing strategy in response to the economy? Not really. If anything, we have increased frequency.

How is social media affecting your business? We don't yet advertise on social media, but it is also a huge threat. An employee can do something stupid that can be photographed or recorded and go viral within minutes or hours.

How do you hire and fire? We search out and hire experienced managers who have great talents and achieved identifiable successes. We then look carefully at them to make sure they are not only right for us, but that we are right for them (a great fit). When someone doesn't work out we consider that it is as much our fault as theirs, and most of the time we have another job lined up for them so they and their family don't suffer financially.

How do you train and retain? Golden Corral has a great training program for all levels that shows the mechanics of managing a Golden Corral. And by hiring successful, talented managers. They each add to our culture positively. We strive to be the preferred employer in every market we serve.

How do you deal with problem employees? Communicate the problem with them, outline a strategy, and establish the expectation and time frame. If substantial improvement isn't made we help them find another employer with whom they can be successful.

Fastest way into my doghouse: Don't perform what is expected of you.


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"The one thing I learned from those days is the basics. Problems came when I would fluctuate from the simple basics. Don't overanalyze it. Keep it simple."

wasn't a bad student. I just couldn't sit in a classroom."

In need of a job, he washed dishes at a Sambo's restaurant, only to discover he actually enjoyed the ritual and liked things "spotless, organized, and in place." Soon he was working long days, jumping from his early morning dishwasher shift to the cook line to learn the restaurant business. Nine months later he was in management training and the start of a career that would ultimately—with a few address changes across the U.S.—lead him to operations within Golden Corral and his first franchise in 1993.

Today Gronewoller projects continued growth with construction for Golden Corral locations in Miami and Hialeah, Fla., scheduled for the first quarter of 2015, and he has several more deals in the works. Yet it is the lessons learned in those early years that he still keeps in mind as a multi-unit operator. "The one thing I learned from those days is the basics. Any time we would have problems came when I would fluctuate from the simple basics. If I went back to the basics, those problems went away," he says. "Don't overanalyze it. Keep it simple." MUF

BOTTOM LINE

Annual revenue: More than $40 million.

2014 goals: Reverse the current trend driven by economic conditions and high commodity prices. Get two new Miami locations under construction and open.

Growth meter: How do you measure your growth? Did we expand our share of the market in the markets we operate in?

Vision meter: Where do you want to be in 5 years? 10 years? Retired, spending time with my kids and grandkids, sailing and hunting. And being on the board and a landlord for this business!

How is the current economy affecting you, your employees, and your customers? It has hurt everybody. The "dining out" incidence in the country has declined significantly, as most have less to spend and those who don't are more careful where their money is spent. All are spending more at the grocery store and in the gas tank, thus they have less to eat out with.

Are you experiencing economic growth in your market? This year and last year the answer is no. I do expect economic growth in 2015 and going forward.

What did you change or do differently during the economic downturn that you are continuing to do? The same things we do every day, just much more intensely and thoroughly. We revisited every P&L line item and contract; met with each vendor to improve efficiencies; and eliminated waste, regardless of how small, to reduce costs and improve the value our customers expect from us. This continues every day.

How do you forecast for your business? That is my CFO's job, though I am very involved. We try not to over-analyze things and to set realistic expectations, which has been difficult the past few years.

Is capital getting easier to access? Why/why not? Yes, I believe it is easier, as long as you have good credit and a solid operation. Lenders seem to have tightened down whom they will lend to, so for those with good credit and a solid business plan, money is available and interest rates low.

Where do you find capital for expansion? We get calls and emails nearly every day from lenders. Golden Corral Corp. has excellent contacts and is very helpful. We closed about $20 million with GE Franchise Finance in late 2010, consolidating our restaurant property mortgages into one note with a great interest rate (at the time). They were great to work with—and man, was it fun watching them plow through the paperwork. An impressive team!

Have you used private equity, local banks, national banks, other institutions? Why/why not? Never used private equity. Up into 2010, we used local banks, who are great to deal with. We shopped for the best rate and terms and the local bankers gave them to us. In 2010, GE had the best rate and terms to fit our needs.

What are you doing to take care of your employees? Give them everything I possibly can to succeed in operating their restaurant successfully. The financial rewards follow.

How are you handling rising employee costs (payroll, healthcare, etc.)? At all levels, we are expecting more. We have significantly reduced the number of "key" part-time employees. Those who do not perform have a very short life in our business.

How do you reward/recognize top-performing employees? In lots of ways, the most important is their compensation. Compensation enhances not only their life, but their family and community as well. We communicate regularly, and everyone knows when one has done an extraordinary thing.

What kind of exit strategy do you have in place? This is a moving target, considering the economy. My ultimate desire would be to sell the operating entity to the key staff who made it successful and be their landlord.

BY HELEN BOND

First... and Still the Best

Don Smith dominates the oil change business

Don Smith is an eternal optimist. And for Smith, the first and largest Valvoline Instant Oil Change franchisee, this positive outlook has paid off. Smith is CEO and co-founder of Boston area-based Henley Enterprises, which operates 197 Valvoline Instant Oil Change locations coast-to-coast, with 20 more of the quick lube stores in the pipeline.

In 2012, he orchestrated the purchase and successful rebranding of 72 EZ Lube oil change service centers in Southern California, the largest single acquisition in industry history. The deal, which included many distressed properties and just as many naysayers (including within Valvoline) was a "big piece to bite off," says Smith.

"We went in a little bit blind, but we knew we could do it," he says. "It definitely confirmed that the model that Valvoline has put together—and we have influenced that model—can work virtually anywhere in the United States."

Smith began his career working with a different kind of oil. A prep school rower recruited by the University of Pennsylvania, Smith initially took his dual major of geology and environmental studies to the oilfields of Oklahoma. He spotted a business opportunity in the quick lube business (a concept he discovered no one back in Boston knew much about) and never looked back. In 1989, he opened the first franchised Valvoline location in Somerville, Mass., offering customers a stay-in-your-car solution to preventive maintenance.

Internally, Smith strives for a transparent culture that practices a policy of open accounting to motivate employees, who earn a percentage based on store revenue. Smith says he wants to make sure those profits are good profits. The industry veteran has built a culture of "doing the job right, not taking shortcuts, and treating customers like gold. You need those customers to come back," he says.

"We perform better than virtually every franchise in the Valvoline system," Smith adds. "We know we are absolutely killing the competition, and it is a great opportunity right now. We are going to take advantage of that by growing aggressively." MUF

NAME: Don Smith

TITLE: CEO

COMPANY: Henley Enterprises

NO. OF UNITS: 197; 20 more under development

AGE: 57

FAMILY: Married 30 years, father of two sons

YEARS IN FRANCHISING: 25

YEARS IN CURRENT POSITION: 25

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PERSONAL

First job: Using my degree in geology and environmental studies, my first job was in the oilfields of Oklahoma as a well site engineer for Schlumberger.

Formative influences/events: My ability to work well with others stems from my years on rowing teams. The sport involves a lot of discipline and teamwork. It can be a very complicated and strategic sport. A well-balanced rowing team is a winning team, and I've used some of the same techniques to create winning teams at my Valvoline locations.

Key accomplishments: I feel my biggest accomplishment has been developing a successful company from scratch. Henley Enterprises started with one Valvoline franchise. We are now the largest franchisee in the system.

Biggest/smartest mistake: A mistake is more of a learning opportunity. Two years ago, if you had asked people in our industry, and maybe some within our organization, about our decision to purchase 70 quick lubes in Southern California and turn them into Valvoline franchises, they would have told you that we made a huge mistake. It was a very challenging time for Henley Enterprises. It was more involved than just changing out a few signs. Many of the properties were distressed and needed a complete overhaul. We had to rebuild those businesses from the ground up. We had to retrain employees. We had to win customers back. We purchased more than 500 round-trip plane tickets to send our people to help turn around these stores. The whole undertaking cost us a lot of money. With the support of Valvoline corporate we were able to turn things around in a year. So what at first might have looked to many to be a huge mistake turned out to be our smartest mistake.

Decision I wish I could do over: Not fully investigating and calculating how moving into another franchise would affect our company.

Work week: Monday through Friday, about 45 to 50 hours a week.

How do you spend a typical day? I like to work out in the morning before work. I don't like scheduled sit-down meetings. My day is spent moving around and working on ways to expand my business. I will visit properties that have the potential to become my next Valvoline locations.

Favorite fun activities: Being a former rower, I love water sports. I also like to go skiing in the winter. My wife and I recently bought a home in Southern California that we have been fixing up. Home restoration has become a favorite hobby of mine.

Exercise/workout: I work out with a personal trainer a couple of times a week. We do a combination of aerobic, weight, and stretching routines. Running and biking also help keep me in shape.

Favorite tech toys: iPhone. That's all, that's it.

What are you reading? *Thomas Jefferson: The Art of Power* by Jon Meacham. It is a fascinating look into his life and reveals his many interests, from science to farming.

Do you have a favorite quote? "If you're not growing, you're dying." (Anthony Robbins)

Best advice you ever got: To listen to others before I speak. I remind myself to follow that advice on a daily basis.

What gets you out of bed in the morning? Life in general. I look forward to every single day and what it can bring. I have a very positive outlook on the future.

What's your passion in business? Growth. I am constantly looking for ways to expand Henley Enterprises and develop our people.

How do you balance life and work? For me, life and work balance comes naturally. I am not a Type-A personality. I am more laid back. If you look at my success you might assume I'm a workaholic, but I'm not. I'm home from work every night at a decent hour. I don't travel a lot, but when I do, my wife will come with me now that she has retired from teaching.

Last vacation: A combination of work and pleasure. I was in San Diego to check on my latest acquisitions. My wife and I purchased a house in the area. We spent some time getting settled in and getting the house fixed up. We spent a lot of time getting familiar with the Mission Bay area, which is just beautiful. I even did a little rowing with the San Diego Rowing Club.

Person I'd most like to have lunch with: Thomas Jefferson. He is on my mind right now since I'm reading a book based on his life. I find his story fascinating and it would be exciting to be able to learn more straight from the source.

MANAGEMENT

Business philosophy: To hire the best people, turn them loose, and watch them grow. The results will come back to you in spades.

Management method or style: I'm not a micro-manager. I allow people to do their jobs and make mistakes. I trust my managers. Thanks to Valvoline, I also have a good system where people can learn, train, and advance. I give my team room to innovate and experiment. There are no real consequences for taking a chance and failing.

Greatest challenge: Finding great people as I expand my business.

How do others describe you? Approachable, positive, and slightly scattered.

One thing I'm looking to do better: I'm not very good at seeing danger signs. I always see the best in everything and everyone. Sometimes that can be a limitation.

How close are you to operations? I'm not as involved in operations as I used to be, now that I have almost 200 stores to oversee. When I started with just one, I used to do oil changes. Now I allow my management teams to handle operations.

What are the two most important things you rely on from your franchisor? Support and to keep operations improving at all times. I look to them for new policies and procedures to move the business forward. They are a *great* partner.

What I need from vendors: The most important thing a vendor can give me is good service. My biggest vendor is Valvoline, and I receive excellent service from them.

Have you changed your marketing strategy in response to the economy? How? No, but it has changed based on the popularity of the

continued

MANAGEMENT, CONTINUED

Internet. Electronic media is becoming more dominant, so my team has changed the way we position the business online. We spend less of our marketing and advertising budget on TV, print, and radio and more on Internet marketing. We've seen an increase in business at our centers as a result.

How is social media affecting your business? In addition to spending more money on Internet advertising, we realize the power of social media and its ability to give customers a voice. While we would like for all of our customers to lodge complaints in person and leave our stores happy, we realize that doesn't always happen. We monitor social media sites closely to respond to complaints quickly and solve customers' problems.

How do you hire and fire? We promote from within. We've developed a sophisticated human resources department, which has changed the direction on how we hire people and how we evaluate them. When an employee is having a difficulty, we meet with them immediately to let them know their performance is slipping. We let them know what needs to be done to correct the situation. If that doesn't happen, we part ways. Basically, if someone loses their job, it shouldn't come as a surprise.

How do you train and retain? Thanks to Valvoline, we have an extensive training program in place. Employees must achieve certain certifications at various times. For example, a new hire needs to be a certified service technician within 60 days of being hired. The system allows employees to see where they are at and what opportunities are available to them. They can move through the system at a rapid pace. An employee can advance from a service technician to a store manager much quicker at Valvoline than at other franchises.

How do you deal with problem employees? We put problem employees on a program where they have to manage themselves through their difficulty. We meet with them to discuss the issues and let them know the steps they need to take to improve. Employees should always know where they stand. We are big on keeping records on everything, including employee performance. If an employee doesn't improve, they are managed out of the system.

Fastest way into my doghouse: To not tell the truth. If someone is not being forthright and honest with me, I will lose my trust and faith in them.

BOTTOM LINE

Annual revenue: $170 million.

2014 goal: $175 million.

Growth meter: How do you measure your growth? In year-over-year sales and profits. We strive for 5 percent year-over-year profit growth. We want to grow the company revenue by 10 to 15 percent every year.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, we want to be at 300 to 350 stores. In 10 years the goal is to have more than 500. We want Henley Enterprises to be the dominant quick lube operator in the U.S.

How is the current economy affecting you, your employees, and your customers? In a positive way. We are growing. We are profitable. Our customer base is growing. Things are definitely rebounding, and it's just going to get better in the next few years.

Are you experiencing economic growth in your market? Yes. We are seeing growth in all our markets, especially Southern California and the Mid-Atlantic regions. Another region seeing improvement is Florida, which was really bad during the economic downturn. There are also many more cars on the road between four and 12 years old. As the age of a car ticks up, people are less likely to go to a dealer for service. They come to us.

What did you change or do differently during the economic downturn that you are continuing to do? We really didn't do anything different. The price of gas doesn't get discounted during hard times, why should the price of an oil change? Our costs remain the same during good times and bad.

How do you forecast for your business? We begin doing plans and budgets in October for the year ahead. We look at previous year performance and decide on a target increase in oil changes and ticket. We look at total revenue on a store-by-store basis while taking into account how old the store is. We can forecast what the increase needs to be year over year based on these factors.

Is capital getting easier to access? Why/why not? Yes. We are getting far enough away from the last banking crisis. Banks are finally loosening up and giving loans that are based less on how regulators will view them and more on the validity of the loan and quality of the asset.

Where do you find capital for expansion? Mostly in traditional banking.

Have you used private equity, local banks, national banks, other institutions? Why/why not? We stick with local and national banks. We've looked at private equity, but it doesn't make sense to our business. We prefer to maintain independence. Private equity is usually predicated on required growth, which is difficult to do in *any* business.

What are you doing to take care of your employees? Responding to the new minimum wage requirements. We want to be proactive to attract quality employees. We also provide incentives to employees with open accounting. They can look at the books and see exactly how their store is performing. Each employee gets a percentage based on store revenue. We also have a stock plan for management-level employees and above. There also are tiered bonuses based on what each store makes and what Henley Enterprises makes as a whole. We also offer a 401(k) with a 5 percent match.

How are you handling rising employee costs (payroll, healthcare, etc.)? Healthcare costs are one of our major concerns. We want to make sure all of our employees have the health coverage they need. We are complying with the Affordable Care Act. However, we are seeing major cost increases associated with the changes.

How do you reward/recognize top-performing employees? In a variety of ways. We give out numerous awards. We also select about 35 employees to go with us to Valvoline's annual franchise meeting. We also allow the stores to shut down for a day and hold a summer party.

What kind of exit strategy do you have in place? None. I'm taking it one day a time and I'm not planning to retire anytime soon.

DOMINATORS

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

MSA	FRANCHISED UNITS
LOS ANGELES, CA	16,843
CHICAGO, IL	10,079
ATLANTA, GA	7,287
WASHINGTON, DC-MD-VA-WV	7,161
HOUSTON, TX	6,074
BOSTON, MA-NH	5,886
PHILADELPHIA, PA-NJ	5,638
NEW YORK, NY	5,474
DALLAS, TX	5,473
PHOENIX-MESA, AZ	5,113
DETROIT, MI	4,941
MINNEAPOLIS-ST PAUL, MN-WI	4,859
TAMPA-ST PETERSBURG-CLEARWATER, FL	3,817
SAN DIEGO, CA	3,690
ST LOUIS, MO-IL	3,637
WASHINGTON-BALTIMORE, DC-MD-VA-WV	3,387
DENVER, CO	3,290
SAN FRANCISCO-OAKLAND-SAN JOSE, CA	3,287
CHARLOTTE-GASTONIA-ROCK HILL, NC-SC	3,204
SEATTLE-BELLEVUE-EVERETT, WA	3,082
ORLANDO, FL	2,924
LAS VEGAS, NV-AZ	2,807
NASSAU-SUFFOLK, NY	2,806
INDIANAPOLIS, IN	2,724
PITTSBURGH, PA	2,649
DALLAS-FORT WORTH, TX	2,636
KANSAS CITY, MO-KS	2,619
OAKLAND, CA	2,616
NORFOLK-VIRGINIA BEACH-NEWPORT NEWS, VA-NC	2,549
PORTLAND-SALEM, OR-WA	2,520
SACRAMENTO, CA	2,518
RALEIGH-DURHAM-CHAPEL HILL, NC	2,484
CLEVELAND-AKRON, OH	2,480
COLUMBUS, OH	2,467
CINCINNATI, OH-KY-IN	2,450
SAN ANTONIO, TX	2,412
NASHVILLE, TN	2,353
AUSTIN-SAN MARCOS, TX	2,302
MILWAUKEE-RACINE, WI	2,270
FORT LAUDERDALE, FL	2,176
NEWARK, NJ	2,130
MIAMI, FL	2,047
RICHMOND-PETERSBURG, VA	1,921
JACKSONVILLE, FL	1,916
HARTFORD, CT	1,876
SALT LAKE CITY-OGDEN, UT	1,850
GREENSBORO-WINSTON-SALEM-HIGH POINT, NC	1,706
OKLAHOMA CITY, OK	1,689
WEST PALM BEACH-BOCA RATON, FL	1,665
BERGEN-PASSAIC, NJ	1,585
GREENVILLE-SPARTANBURG-ANDERSON, SC	1,576
MEMPHIS, TN-AR-MS	1,520
LOUISVILLE, KY-IN	1,510
MIDDLESEX-SOMERSET-HUNTERDON, NJ	1,475
GRAND RAPIDS-MUSKEGON-HOLLAND, MI	1,459
MONMOUTH-OCEAN, NJ	1,443
NEW ORLEANS, LA	1,430
SAN FRANCISCO, CA	1,380
BIRMINGHAM, AL	1,377

LARGEST FRANCHISEES BY STATE

STATE/TERRITORY	LARGEST FRANCHISEE	UNITS
ALABAMA	NPC INTERNATIONAL INC	108
ALASKA	SUBWAY DEVELOPMENT OF ALASKA	26
ARIZONA	DESERT DE ORO FOODS INC	110
ARKANSAS	K-MAC ENTERPRISES INC	103
CALIFORNIA	SOUTHERN CALIFORNIA PIZZA	224
COLORADO	HARMAN MANAGEMENT CORP	59
CONNECTICUT	NORTHEAST FOODS LLC	33
DELAWARE	CATO INC	15
DISTRICT OF COLUMBIA	MARY LYNNE CARRAWAY; HENRY HUTH	11
FLORIDA	HESS CORP	210
GEORGIA	NPC INTERNATIONAL INC	90
HAWAII	KAZI MANAGEMENT	44
IDAHO	JACKSON FOOD STORES INC	61
ILLINOIS	HEARTLAND FOOD CORP	177
INDIANA	BR ASSOCIATES INC/SIDAL INC	102
IOWA	NPC INTERNATIONAL INC	64
KANSAS	ROTTINGHAUS LLC	175
KENTUCKY	FOURTEEN FOODS LLC	56
LOUISIANA	STRATEGIC RESTAURANTS ACQUISITION CO LLC	129
MAINE	CAPITAL PIZZA HUTS	26
MARYLAND	DAVCO RESTAURANTS INC	108
MASSACHUSETTS	HK ENTERPRISES	63
MICHIGAN	QUALITY DINING INC	83
MINNESOTA	BORDER FOODS INC	85
MISSISSIPPI	NPC INTERNATIONAL INC	73
MISSOURI	ROTTINGHAUS LLC	90
MONTANA	KENT COLVIN	24
NEBRASKA	HEARTLAND FOOD CORP	40
NEVADA	CRAWFORD OIL INC	75
NEW HAMPSHIRE	THE SCRIVANOS GROUP	42
NEW JERSEY	HMSHOST	60
NEW MEXICO	PALO ALTO INC	70
NEW YORK	CARROLS GROUP	118
NORTH CAROLINA	WILCOHESS LLC	192
NORTH DAKOTA	FARMERS UNION OIL CO	21
OHIO	CARROLS GROUP; THE COVELLI FAMILY LTD PARTNERSHIP; HALLRICH INC	85
OKLAHOMA	WING FINANCIAL SERVICES LLC	108
OREGON	GBMO LLC	59

continued on page 48

continued from page 46

LARGEST FRANCHISEES BY STATE, continued

STATE/TERRITORY	LARGEST FRANCHISEE	UNITS
PENNSYLVANIA	JERRY BUSS	54
RHODE ISLAND	THE JAN COMPANIES	30
SOUTH CAROLINA	APPLE GOLD INC	40
SOUTH DAKOTA	NPC INTERNATIONAL INC; WALSH	22
TENNESSEE	TRI STAR ENERGY LLC	125
TEXAS	MUY BRANDS LLC	196
UTAH	SIZZLING PLATTER INC	60
VERMONT	PETER NAPOLI	14
VIRGINIA	BODDIE-NOELL ENTERPRISES INC	173
WASHINGTON	HEARTLAND AUTOMOTIVE SVCS INC	100
WEST VIRGINIA	LITTLE GENERAL STORE INC	48
WISCONSIN	WISCONSIN HOSPITALITY GROUP LLC	119
WYOMING	KENT COLVIN	17

2014 Dominators

Multi-unit, multi-brand operators and their organizations are becoming larger and more numerous each year—a trend that continues to accelerate as operators who rode out the recession are expanding their portfolios by swallowing smaller fish, acquiring under-performing units, building new stores, and moving into new brands and territories. The shakeout and subsequent consolidation of weaker operators, combined with improved operations by the stronger ones, as well as a wave of older franchisees retiring, is creating historically large franchisee organizations, as the rankings from FRANdata indicate.

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

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

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

LARGEST FRANCHISEES BY REGION

REGION	UNITS
EAST (DC, DE, MD, NJ, NY, PA, WV)	
HMSHOST	163
ADF COMPANIES	159
CARROLS RESTAURANT GROUP	153
TARGET CORP	139
DAVCO RESTAURANTS INC	111
MIDWEST (IL, IN, MI, MN, OH, WI)	
HEARTLAND FOOD CORP	301
TARGET CORP	208
FLYNN RESTAURANT GROUP LLC	200
CARROLS GROUP	178
BRIDGEMAN FOODS/ERJ DINING INC	149
MOUNTAIN WEST (CO, ID, MT, UT, WY)	
NPC INTERNATIONAL INC	89
SIZZLING PLATTER INC	87
HARMAN MANAGEMENT CORP	84
JACKSON FOOD STORES INC	61
UNITED STATES BEEF CORP INC	60

REGION	UNITS
NEW ENGLAND (CT, ME, MA, NH, RI, VT)	
THE SCRIVANOS GROUP	116
NORTHEAST FOODS LLC	101
HK ENTERPRISES	78
CARLOS ANDRADE	67
FLYNN RESTAURANT GROUP LLC	65
PLAINS (IA, KS, MO, NE, ND, OK, SD)	
ROTTINGHAUS LLC	331
NPC INTERNATIONAL INC	243
UNITED STATES BEEF CORP	211
FUGATE ENTERPRISES	138
WING FINANCIAL SERVICES LLC	109
SOUTH (AL, AR, FL, GA, KY, IA, MS, NC, SC, TN, TX, VA)	
NPC INTERNATIONAL INC	814
TARGET CORP	358
ARAMARK	324
TACALA/BOOM FOODS	312
BODDIE-NOELL ENTERPRISES INC	298

REGION	UNITS
SOUTHWEST (AZ, NV, NM)	
B & B CONSULTANTS INC	118
DESERT DE ORO FOODS INC	111
CRAWFORD OIL INC	75
PALO ALTO INC	70
STINE ENTERPRISES INC	70
WEST (AK, CA, HI, OR, WA)	
TARGET CORP	254
SOUTHERN CALIFORNIA PIZZA	224
HARMAN MANAGEMENT CORP	211
HEARTLAND AUTOMOTIVE SVCS INC	158
PACPIZZA LLC	151

Source: FRANdata


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BY KERRY PIPES

Building *(or Acquiring)* Success

KEY GROWTH FACTORS FRANCHISEES SHOULD KNOW

No one ever said franchise growth was easy. Operating one or two locations is hard enough, but growing to 10, 20, or more is challenging for even the most seasoned operators—especially if any of their new builds or acquisitions turns out to be a poor performer. We tracked down five successful multi-unit franchisees who have been there and done it—and who bear the scars and trophies to prove it. Among the key factors in multi-unit success, they say, are timing, funding, cash flow, people, infrastructure, and identifying the right opportunities. Their insights into what to look for and how to proceed once you decide it's time to grow may contain just the missing ingredient you need.

Right time

Deciding when to grow—and if you're ready—differs for each franchisee. One common theme among those who have expanded successfully is having the right people in place to support that growth *before* moving ahead.

"Do we have the right operations people developed well enough to deploy to a new market?" asks Rob Branca, Jr., a Dunkin' Donuts franchisee with more than 70 units. "If we don't have good, hands-on operations people ready to live in a new market and build their own benches of additional people, we won't expand," he says.

Cheryl Robinson, who operates 36 Supercuts salons in Southern California, agrees, and adds two more ingredients to the mix. "There are three important factors that help us decide if we are ready to grow," she says. "First, do we have the energy and desire for the challenge? Next, are our people, especially our senior management, ready and willing to take on a challenge? And last, is the opportunity high-quality, and does it meet our criteria?" She cautions that it can be tempting to grow because of "boredom or the need for something new," but says neither of those reasons will likely pay off in the long term.

Growth also requires a certain level of commitment. Operators like David Ostrowe, president of O&M Restaurant Group, argue that you either commit to growing or you start shrinking. "My costs go up every year and market share is under attack every year," he says. "I'm not content in making less money next year. Growth is the only direction."

"If we don't have good, hands-on operations people, we won't expand."

Rob Branca, Jr.

"We know we are ready for growth when current operations are smooth and cost controls are in line," says Tony Lutfi, who operates 130 restaurants (53 Arby's, 46 Church's Chicken, 21 Jack in the Box, 5 Little Caesars, and 5 Sizzlers) and has diversified into retail with 21 Sears Outlet and Appliance & Hardware stores, all across 8 states (see profile in Q1 2013 issue). "We also know that we can grow when the current cash flow can support the potentially added debt service," he says.

Right opportunity

No matter how much diligence is done beforehand, effectively identifying good growth opportunities can remain a bit of a gamble, but there are ways to improve the odds. As Ostrowe jokingly puts it, "I kiss a lot of frogs." That goes for both new development and acquisitions. But for a frog even to have a chance of becoming a princess, he says, "The concept has to have superior financials in comparison to concepts I currently operate and returns I can get in the market."

In Robinson's case, Supercuts corporate presents her with buying opportunities. "In our franchise system, new locations are constantly being brought forward for our review," she says. Robinson also makes sure to stay actively involved in her geographic areas, "so we know opportunities that may be far out on the horizon."

Lutfi attends industry conferences and trade shows to keep his finger on the pulse of potential growth opportunities. "We attend most of the networking conferences such as the Multi-Unit Franchising Conference and RLC, along

with the various brand conventions," he says. Lutfi looks for brands with strong management teams and ownership. "We prefer brands that are least 25 years old and that are geographically in areas where the population is growing."

Buy or build?

Another critical factor involves evaluating the pros and cons of buying an existing location versus building anew. Ostrowe says he prefers the acquisition route. "It is always cheaper to take over existing units," he says. "Planning and development costs are high." He looks for units he considers underperformers that he can acquire and turn around.

Says Lutfi, "We want to acquire opportunities where we can implement our management style and ability to improve the business. The multiples paid for the new business will immediately improve as soon as we improve cash flow and flow-through."

For Branca, "A pro of acquiring existing units is that you have data on what the sales have been, so there is a known floor. And if you believe that you can improve operations, you can always grow additional profits. With building a new site, you are never absolutely sure if the customers will come in numbers large enough to make the site a success."

Still, Branca has his own reasons to favor building over acquisition. Over the years, he says, his company has become adept at real estate development and construction for his Dunkin' Donuts stores, and has established separate businesses for outside work in these areas. "A major pro of building our own sites is to continue to feed work to our other businesses and to provide our construction employees with plenty of work year-round," he says.

Says Lutfi, "We've achieved our growth mostly through acquisition, but every company must grow organically as well. For us it has been 95 percent acquisition and 5 percent build, but we are working to reach a better balance now that we've reached scale."

Robinson's company has taken both approaches. For her, it depends on the circumstances, timing, and numerous other factors. "In either case, the real estate decision is the most important thing to consider," she says.

Cheryl Robinson

In fact, many franchisees prefer to "own the dirt." In addition to the property's expected appreciation, if one concept doesn't produce the desired ROI on that site, the operator can replace it with another brand.

Finding the money

Funding growth is critical, and there are many ways to do it effectively. Some prefer to fund themselves through operations and keep debt low, while others embrace greater risk and debt with the confidence they can make it pay off.

Robinson prefers funding growth through operations. However, she adds, "We are almost debt-free now, though we are looking at the current financial climate to see if borrowing is a viable option."

David Ostrowe

Ostrowe prefers "minimal funding" so he can continue to maintain current debt levels. "I've looked at deals that would double our size, only to make less money. Why do it?" he says.

For Branca, every option is on the table. "We consider all available lenders, their rates and terms. We negotiate rates, financial covenants, try to limit our personal guarantee exposure, and acquire LIBOR swaps so we can trade out our floating rates if we believe they are moving to our detriment," he says.

Working the numbers

Another critical numbers game expansion-minded franchisees must play is thoroughly assessing the financial health of any proposed acquisition. No one wants to buy a sinking ship, but rather one they can right and set back on a profitable course. Determining this means being aware of some important financials.

For Ostrowe, it's the top-line sales of the existing unit. "It is very difficult for me to justify overhead against a unit or concept that falls below my average volume unit," he says. When it comes to restaurants, he takes a hard look at the cost of commodities and labor because of their uncertainty, with the coming of the ACA, minimum wage hikes, and the effects of international turmoil on food prices. "We already operate on razor-thin margins," he says. "I'd hate to be wrong on assumptions and end up shrinking unexpectedly."

Maureen Grimaud and her husband David operate 90 Precision Tune Auto Care units in 11 states. When evaluating a potential acquisition, she says, be systematic and have specific criteria, including overall system P&Ls, debt-to-asset ratios, cash management, and ROI from each of the different districts.

Other factors include real estate and labor, and whether or not a community has a friendly attitude toward business development. "We look at the market real estate prices and rents in the various trade areas of a new territory, and the quality, labor, and material costs for construction subs in the skilled trades like plumbing and electrical work," says Branca. "We also

look closely at the regulatory environment and whether communities have complex, difficult approval processes and if they are friendly or hostile to development." He says the time frames for getting approvals can encourage him to take on a new market or cause him to look elsewhere.

Says Lutfi, "We expect a return of 25 percent cash on cash and a deal that can service its own debt."

People-ready?

The people element is paramount to the success of any organization. Motivated, talented team members are the difference between success and failure.

"We develop our people internally," says Branca. "Our best team members are looking for more responsibility and opportunity. We only send people to new markets who have demonstrated their judgment, trustworthiness, and acumen. Then we support them wholeheartedly in every aspect of need they might have."

Says Ostrowe, "I constantly look for talent that can move to the next level. I challenge my teams to do the same." He makes sure everyone knows the company is growing and needs people to step up. If someone is promoted, they are required to provide their replacement. Other infrastructure issues to watch for are IT and accounting, which, he says "can get very expensive as you continue to grow."

"We are always developing new management team members, even if there is nothing on our horizon," says Robinson. "We look for people who are ready for a challenge and who are open for education and are team players."

For Lutfi, development is an ongoing process. "You can never predict when the next opportunity will be, so we work on improving our infrastructure regularly and allow for flexibility along the way." He says he's blessed to have a team that has a true sense of ownership and says they are always ready for growth.

One brand or more?

Another decision when growing a franchise organization is whether to stick with one brand or diversify into others. For Grimaud, it's simple. "We stick with one brand. Geography is determined by manpower in those areas as well as demographic support."

Tony Lutfi

Robinson likes the simple approach, too. "We have been single-brand for more than 30 years. Though we have several times begun the process of looking at other brands, ultimately we may just be one-brand people."

Others see strength in diversity. Says Lutfi, "We decided years ago that we needed to be diversified by brand and geographically. We want to be in areas where the population is growing and be a part of brands that plan to deliver value to the consumers."

"Every time I branch out to new brands, it costs me money—and I still do it?" says Ostrowe. Yet he believes he should be diversified in both brands and geography.

Maureen Grimaud

"Last winter, one market got slammed with winter weather and the other market carried us. The same goes with brands. New brands create excitement and help with both recruitment and providing growth opportunities for my team."

Branca takes a different approach to operating a single brand. "We are Dunkin' Donuts franchisees and have developed other businesses, but independent ones." Branca says he would look to be a franchisor before considering becoming a franchisee of any but a select few brands he admires. "We are constantly studying other brands and talking to franchisees and franchisors to learn about them and to learn how to better run our own businesses."

Fix or sell?

When considering the acquisition of an underperforming unit, the first step is to uncover what's wrong (assuming anything is right) and then to determine if it can be remedied and is likely to return the desired ROI. If not, the best choice may be to sell.

Although Ostrowe has become something of a specialist at buying underperformers and turning them around, he suggests franchisees have a back-up plan by negotiating the right to close right up front. "If I'm buying, I'm planning on fixing," he says. However, he adds, "Having the authority to close an underperforming site gives you a position of strength while trying to fix it."

Ostrowe's point rings true with Branca. "You sell when a unit is taking more of your time than the potential return of fixing it justifies," he says. "If the payoff of fixing it doesn't justify the resources required to fix it, sell."

Lutfi is no stranger to this question. "When we acquire a large number of units in a single deal, there will be some units that underperform," he says. "We develop short-term strategies to improve the business, but we also develop exit strategies along the way in case we are not able to reach break-even."

Robinson takes a slightly different approach. "This may sound very unsophisticated, but one of the most important factors to us is that the location be a good place to work," she says. There are a variety of reasons her company can tolerate a unit that makes little or no money, she explains, but if a salon is not a good place to work it's time to consider shutting it down. "We strongly believe that our people are our brand, and that if they aren't able to have a good job then our customers won't be able to get consistently good service."

Take a breath

Unit growth is good and provides a boost to a company's revenue. But it's also a good idea to ease up on the reins periodically to evaluate the organization and its overall direction.

"We are constantly assessing our current locations, management teams, profitability, and other sales indicators," says Robinson. "The challenge to do better and to learn more drives us forward," she says. However, she adds, it's also important to look at quality-of-life issues. How much pressure do you want to tolerate? How much time do you want to spend on the business? What can you delegate to someone else so they can grow?

Grimaud says that while her company is always in growth mode, "We will slow down a bit when the need arises to regroup and focus on internal growth."

Continued growth also is a focus for Branca. "We have a growing family and have always been generational investors," he says.

Lutfi keeps an eye not only on how his company is growing financially, but also on other factors important to him. "One of the reasons we choose to grow is to create more opportunities for our employees and leaders in the company," he says. "These are the same individuals who have sacrificed along the way to help grow our company. Growth simply allows them to reach their own personal dreams. It is our way of paying it forward. We will stop when the team tells us to stop."

Conclusion

While there's always more to franchisee growth strategies and tactics, these successful operators have highlighted what they believe are the critical factors and core issues in doing it right. Franchisees looking to get into a growth mode should always be looking for opportunities, whether at franchise or industry conferences or simply by staying in touch with other franchisees and their own markets.

"Network with people in your own and other industries," says Branca. "There are always opportunities for new business and to learn from others."

And do it for the right reasons, adds Robinson. "Growth for growth's sake isn't fulfilling for us. Unit count is not nearly as gratifying as helping your people grow and to be successful in their professional and personal lives."

Genuinely work on becoming a model franchisee, a good employer, and participate in the communities where your units are, says Lutfi. "We all have social responsibilities that go beyond the P&L. Those of us who pay it forward will be rewarded with the customer, brand, and employee loyalty that assure us of continued success." MUF


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555 Total Franchisees attended

- **20%** own between **20-50 units**
- **19%** own between **2-5 units**
- **19%** own between **5-10 units**
- **10%** own over **50 units**
- **15%** own between **10-20 units**

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BY EDDY GOLDBERG

Collaborate, Communicate, Grow

Franchise relations come to the fore

Franchise relations are in the midst of powerful, fundamental change. Driven by the maturity of franchising, the rise of large multi-unit operators, the after-effects of the recession, and, most recently, external regulatory and political threats to the franchise model itself, franchisors and franchisees are working together more than ever before—and looking for ways to do it better.

In our conversations with multi-unit franchisees and franchisors, we found three overriding themes: collaboration, communication, and having a structure in place to facilitate them. Here's how some are working together for mutual gain.

Doc Cohen

Collaboration

In his 35 years in franchising as a franchisee of Great American Cookies, Doc Cohen has seen the brand trade hands from its founders to a private equity firm, sold to its chief competitor, and then sold twice more to private equity firms. Cohen opened his first location in early 1979 and grew to about 35 locations. He has two today with two more in the works.

"Things are far different than 35 years ago," he says. "Relations now are significantly better because franchisees and franchisors have learned how to work with each other. Franchisees especially have a better understanding of the relationship and the nature of the relationship."

Much of that improvement, says Cohen, is because franchisees today tend to be more sophisticated than he was when he came in 35 years ago. "If they asked me to show them a financial statement then, we wouldn't be having this conversation today," he says. "A willingness to share the goals and to participate in how we get there is one of the reasons that the relationships have improved dramatically."

Yet, a major source of potential conflict is baked into the very nature of the franchise model: 1) the franchisor needs to grow the system by adding units, and franchisees want to protect their territories and grow their own business, and 2) franchisors collect royalties from top-line revenue, while franchisees must focus on their bottom line to survive.

Still, there remains much work to do as multi-unit franchisees become larger and want more input into decisions that will

Brian Schnell

affect their bottom line, and franchisors must continue to protect the brand and develop their products and services to attract customers. The challenge is balancing those interests for the good of the system.

"Franchisees are important stakeholders in the brand—not shareholders, but stakeholders," says attorney Brian Schnell, a partner with Faegre Baker Daniels. "They

play a key role in the brand—they're out there living and breathing it every day in their communities."

Schnell represents franchisors on the corporate counseling side, not litigation. "Our franchisor clients will say, 'This isn't a democracy, we don't take votes.' I think successful franchisees would say, 'I don't want to vote, I want input. I want you to value my role,'" he says. "Most franchisors do, some better than others."

Along with multi-unit franchisee Aziz Hashim, CEO of NRD Holdings, Schnell has been co-writing a series of articles about franchise relations for the IFA's Franchise Relations Dialogue forum. "We come at it from different perspectives, which is healthy," he says. The two met at a Franchise Update Media conference, where they were on a panel together and discovered they had a common interest in improving franchise relations.

"If franchisees and franchisors are aligned, I think you can get it done," he says. "If they're not aligned, or franchisees balk at or resist change, or think the franchisor gets it wrong more often than right, then the system will potentially struggle." However, he adds, such alignment is easier said than done.

"This is not rocket science, but it is challenging from time to time—which is good," says Cohen. "We should be challenging each other to see if we can't make each other better."

More important this year than ever before, external forces—the NLRB, California's SB 610 (vetoed by the governor), proposed state and federal minimum wage hikes, including Seattle classifying franchisees as big businesses—are sending a message to the franchise community that in the face of outside threats, they'd better learn to work together for mutual survival. These political and regulatory challenges are pushing franchisees and franchisors to learn how to collaborate and communicate better.

Ten years ago there wasn't as much collaboration, says Schnell. "It was more of a what to do and when to do it approach, command-and-control versus collaboration," he says. "All of this has changed, maybe not completely, but a big part is multi-unit franchisees with the influence

Randy Shacka

they have and the role they play from a brand perspective. They would say we still have some work to do," he says.

"I think that's what multi-unit franchisees are learning more and more: that they have that kind of influence on what they're seeking from collaboration and being viewed as a stakeholder," Schnell says. "That's one thing coming out of the Multi-Unit Franchising Conference, and the relationships being formed there."

Communication

"One of the things I find interesting is *how* franchisors communicate with their franchisees," says Cohen. "I'm a strong believer in when you want to send things that may not be well received, for example raising the marketing fee/ad fund, how you


Dina Dwyer-Owens

communicate that is important."

The key, he says, is to present any changes as serving the interests of the franchisees and the system overall. "If the franchisor says 'All future deals will be X,' they'll get a lot of pushback." Much better, says Cohen, is to say, 'Hey guys, we've done some research and believe that if we had another half a percent, we could do the following things,' and outline a case for it, and what it's planned to do for a franchisee's bottom line."

If they can convince him that a change is an investment in his business and not another cost, Cohen says he's much more likely to support it. Nevertheless, he adds, "At the end of the day, I recognize they have the right to do that, whether or not I approve. They're the stewards of the brand, they protect the brand."

Says Cohen, "A good leader is not afraid to be transparent and communicate effectively about the thought process that goes into decisions. In communicating to franchisees, a good leader explains why and justifies a case," he says. "Good franchisors do that, and that's why the relationship has improved over the years."

"Our job is to try to explain why we're going where we're going," says Randy Shacka, president of Two Men and a Truck. The company recently went through a major change with its operating system, which was almost 10 years old.

"We had to do it—the old system couldn't handle our growth," says Shacka. "It's hard to effectively collaborate when you're growing extremely fast and have to make decisions." The company now has 311 locations in 37 states—with 56 straight months of consecutive growth and the brand is on track for another record year of growth, most probably around 14 percent, he says.

"We had to explain to them why we had to do it, but here's how it will benefit you on the back end with business data and information we can provide back," says Shacka. The process involved a lot of initial meetings and webinars to define what was needed. "It was an iterative process based on feedback, but ultimately we had to make a decision what to put into the software and what not."

One thing that helped is that Shacka

had spent 2 years as general manager for one of the brand's franchisees in Florida. His hands-on knowledge of the system gave him added credibility with the franchisees. "Understanding what goes on every day on the front lines and the long hours you put in working in operations, going through all the different hats you have to wear every day as a franchisee, helped me understand where we were. The information was old, antiquated, and we were looking to integrate a financial package. It helped me have legitimate conversations with the franchisees about the good things with the old system and the things we had to change."

Listening is a top priority at The Dwyer Group too, but it goes both ways, says Executive Chairwoman Dina Dwyer-Owens. "We have to be willing as a franchisor to listen, but they also have to be willing to listen," she says. When the company was planning to introduce new software, she says, listening played a key role. "We have a healthy enough environment where we can have these discussions and talk in a frank manner. When you have such an open relationship you can talk about these things. People here care about the *whole* organization."

"One of the things central to the question of franchise relations boils down to a simple word—'respect.'"
—Jeff Tews

Jeff Tews

Listening and respect

In 2006, as the fourth franchisee of BrightStar Care, Jeff Tews has had an unusual opportunity to influence the brand. He and his wife, Susan Rather, operate four BrightStar units in Wisconsin, along with one Mr. Handyman. And they have the option to be the first franchisee of the company's newest concept, BrightStar Senior Living (see their profile on page 18).

Tews, who spent 33 years in corporate America before becoming a franchisee, saw BrightStar as an opportunity to apply his leadership skills in developing the business and standards for the emerging home care brand. That included helping to create the brand's franchise advisory council (FAC) with founder Shelly Sun.

"Shelly and I hashed out how the FAC should be constructed," he says, and served as co-chair with her. "One of the things central to the question of franchise relations boils down to a simple word—but

The Best Relations: Profitable Engagement

The choice to be engaged seems simple enough. According to a survey conducted by Franchise Business Review and Ingage Consulting of more than 24,000 franchisees in over 300 systems, a franchisee who is engaged is 3.8 times more likely to report strong profits than a franchisee who is not.

Engaged franchises are more involved, they learn more, and they are able to translate that to improved profits. The very engaged understand their selfless act of helping another franchisee actually pays dividends, because the process of helping others is a learning experience. When helping another franchisee you see things about your own business that you would have never seen otherwise.

They can see the big picture and know the role they play in the franchise's success. They know the numerous (and sometimes annoying) emails from the franchisor are worth reading, and that going to the annual convention is worth every penny. They also realize that both of these things pay dividends.

Evan Hackel

A franchisee in financial trouble often tells me they can't afford to go to the annual convention and don't have time to read the emails and go online. Their rationale is normally that they must focus on their business. My response is that if they want to improve their business and want things to be different, they must *engage*. Going into hiding is the worst thing to do.

Some franchisees tell me their system doesn't encourage engagement. Sadly, it is true that many systems pay only lip service to engagement. But that shouldn't stop you from being engaged. You can hold meetings with neighboring franchisees. You can visit their locations. Offer them help. There are plenty of ways to be active and engaged within your franchise system.

Like the old adage says, "The more you put in the more you get out." The more engaged you are the more you get out! Be engaged in your franchise community, it can help you be more successful.

—Evan Hackel, founder, Ingage Consulting

complex for everyone to live—and that's 'respect,'" he says.

"Part of a successful system and family around the brand is where both sides act on mutual respect for that perspective," says Tews. "I think where things go astray is when the franchisees believe that respect is not there from the franchisor. If it looks like it's pointed at the top line with no consideration for franchisees, they lose respect."

Respect may be there at the start of a system, says Tews, "But as the business gets larger, it's easy for that respect piece to be lost on both sides." He says this can happen when communication with the C-suite or founders is not as direct as it was at the start. "I still have that, but newer franchisees don't," he says. Knowing directly from Sun that she cared about the franchisees and their success has made a big difference for him in maintaining that respect. The challenge, of course, remains how to create that for newer franchisees as the system expands.

> "As the system grows, all the franchisees benefit from it. Our success depends on each other."
> —*Doc Cohen*

At The Dwyer Group, with 7 brands and more than 1,600 franchises, everything is based on the company's Code of Values (viewable on their website). "It's the foundation," says Dwyer-Owens. "The more we grow, the more I see the need for the Code of Values—and people who understand that if we all agree to work this way it will work for everybody."

The Code of Values, she says keeps everyone's vision clear, directs the company's strategic development, guides decision-making, and governs everyday behavior. And it helps everyone realize or remember that the franchisees and franchisor share common interests. "As a franchisor, I've always understood we need alignment with the franchisees, and it should be for the good of the whole. I don't know why people make it so hard—it's good for all of us to align to get through the rough water," she says.

At the end of the day, says Cohen, both parties must realize they have very similar interests—despite their built-in differences in priorities. "As the system grows, all the franchisees benefit from it. Our success in franchise systems depends on each other," he says.

"I think we all have a much better understanding about what franchising is about, what each can to do to help," says Cohen. "The current leadership of my franchise system is focused above all else on making franchisees successful. Our CEO has told me that a number of times. You can't have successful franchisors without successful franchisees—and vice versa. I remember Bill Rosenberg saying that right up to the day he died." MUF

IFA'S FRANCHISE ACTION NETWORK

BY ERICA FARAGE

The franchise business model is under unprecedented attack by anti-business activists launching a coordinated campaign in cities, states, and at the federal level. From discriminatory wage increases in Seattle and potentially Chicago, to federal regulations that would recast franchisors as employers of their franchisees' employees, these attacks are like nothing we have ever experienced. Franchise businesses must unite under a single, unswerving, strong, and collective voice to defend the franchise model against these increasing threats.

1) It's time to mobilize, now. This summer, the IFA board approved a new strategic initiative, the Franchise Action Network (FAN) to mobilize and unify the franchise community. Through FAN, franchisees, franchisors, and suppliers are working to educate lawmakers, regulators, key influencers, and the public about the crucial economic advantages provided by the franchise business model across the country.

2) Why join FAN? In addition to keeping you in the loop about the latest news affecting franchises in your area, FAN will work to neutralize anti-franchising forces, simultaneously educating policymakers that locally owned franchise businesses are indeed essential small businesses. As a member of the franchise community, you know that behind many familiar logos and trusted brands are small-business owners seeking to increase opportunity—not just for themselves, but for their entire communities. By joining FAN, individuals can play a critical part in delivering this message to policymakers in Congress, the states, and in cities across the U.S.

3) Key objectives. By launching FAN, franchising aims to seize control of the debate, build our network of grassroots supporters, and educate policymakers and the public about the benefits of franchising. FAN's objectives are as follows:

- recruit current franchisees, franchisors, and suppliers in each state to educate them on public policy issues;
- motivate these individuals to come together for a common industry cause; and
- prepare and position FAN for legislative activity in the 2015 legislative sessions and beyond.

4) Key issue: NLRB joint employer status. In July, the National Labor Relations Board's Division of Advice announced that a franchisor could be designated as a joint employer of its franchisees' employees. IFA is fighting this dangerous assertion because it is unlawful and will harm job growth, the economy, and locally owned franchised small businesses in every state.

The Service Employees International Union (SEIU) is leading organized attacks against franchising. The labor union's multi-pronged attack at the local, state, and national levels includes having the federal government declare entire franchise systems as a single unit rather than the collection of separate, small-business owners they actually are. The SEIU wants to undermine the franchise business model so it can more easily unionize entire franchise systems, as it is much more difficult for unions to organize thousands of independent small businesses under the current regulatory system.

5) Key points. The NLRB's Division of Advice ignored decades of regulatory, legal, and legislative precedents which make it clear that franchisees are separate businesses from their franchisors. Their legally binding contracts also make this clear.

- A franchise is an agreement or license between two independent businesses. Many franchise businesses with familiar brand names are locally owned and operated small businesses that pay an initial fee and ongoing royalties to use the trademarks of the franchisor.
- Franchisors are responsible for brand standards and quality, while franchisees are responsible for day-to-day operations and employment decisions that include hiring, firing, wages and benefits, and working conditions.
- Franchisees have invested their capital in the business and stand to lose equity in their businesses if their franchisors are deemed joint employers.
- Disputes over liability will only produce costly litigation for both franchisees and the franchisor.

6) Leveraging our voices. FAN launched this summer, but we are already leveraging the voices of our members to address unfair wage hikes in cities such as Chicago and Los Angeles on minimum wage, at the state level in California against a harmful franchise relations bill (vetoed by Gov. Jerry Brown on Sept. 29), and at the federal level on joint employer issues. In Seattle, FAN has been working to educate the public about a proposal that would single out independently owned franchises for an "accelerated adoption" of a minimum wage increase. And in Los Angeles, FAN is getting the word out about a proposal that would increase the current minimum wage by a whopping 70 percent.

7) Taking the game to them. At the recent IFE in New York City, IFA board member and Fastsigns International CEO Catherine Monson said it best: "Politics is a contact sport."

The fact is that those who make laws affecting our businesses often know very little about how franchising works and how their regulations affect our day-to-day operations. If we want to get our message out, we have to take the game to them by forming relationships with lawmakers at every level.

If you want to ensure that lawmakers listen to the franchise community, the most important thing you can do is to become a FAN today by visiting FranchiseActionNetwork.com. ■

Erica Farage is senior director, political affairs and grassroots advocacy for the International Franchise Association. Find her at fransocial.franchise.org.

Ten Years After

Reflections on a decade of change

In 2004, the first words I ever wrote for *Multi-Unit Franchisee* magazine (then called *Area Developer*) were:

"Vast amounts of energy and treasure have been invested to understand why customers do—or don't—come back. Few questions are more important, since same-store sales growth is built on the backs of loyal customers." *That connection between customer loyalty and sales growth remains true to this day.*

What's different now is that franchisees better understand the value of customer loyalty and, for the best operators, how to improve the customer experience and gain market share by winning customers away from not-so-smart competitors. From my perspective as a 10-year columnist here, here is a brief history of how far we've come.

If you think back to 2004, many companies used mystery shopping scores to measure their performance on customer satisfaction. Then began a sea change as most franchise systems began seeking a representative sample of real customers to answer the question, "How satisfied were you with your most recent visit to *this location* of ABC Brand?" That was a big step toward getting statistically valid, location-specific, customer feedback. And for industry leaders, their customer survey results were delivered on performance dashboards, in real time.

Between 2004 and 2007, the franchise community began to grasp the insight that a "satisfied" customer is *not* a loyal customer and does not contribute much to sales growth. Only "highly satisfied" customers do that, returning twice as often as merely satisfied customers. Highly satisfied customers are three times as likely to recommend—which is the essence of Net Promoter Score (NPS), which began to catch on with some franchise systems around 2008.

By the end of the last decade, most leading franchise systems were providing franchisees with customer experience management (CEM) programs that helped franchisees take care of what mattered most at each location by measuring what really counts in the customer experience. By 2010, franchisees' minimum expectations included automated alerts and problem resolution tools as well as celebration alerts that recognize great service by employees who were called out by customers in their comments.

The big shift to web-based surveys meant customers typed their comments, both positive and negative. Thus began the rise of text analytics, which can aggregate comments and mine that data to spot trends and gain insights that the unassisted human mind can't perceive.

> **"Creating a loyalty-inspiring customer experience is the only sustainable path to growth today."**

Then, seemingly suddenly, came the explosion of social media, turbo-charged by the revolution in mobile technology, which increased the impact of customer comments by several orders of magnitude.

The period from 2009 to 2010 was the inflection point for social technology growth. Franchise leaders were starting to redirect their customer survey respondents directly to social media sites like Facebook and Twitter. There customers could share their positive stories of doing business with great franchisees and make recommendations—to audiences far larger than traditional word of mouth allowed. Social media listening technology started to become as necessary as having a toll-free customer hotline was in the past.

Smartphone usage exploded at the beginning of this decade too. In 2010, about a quarter of mobile phones were Internet-enabled. By 2014, at least two-thirds of mobile phones are smartphones. This change had a remarkable effect as consumer feedback to franchisees by smartphone doubled each year. Most important, the tsunami of customer comments through social and mobile technologies has completely exposed the gap between what you promise and what you actually deliver. That's why creating a loyalty-inspiring customer experience—in the store, on the web, over the phone—is the only sustainable path to growth today.

Just as we were surprised by how quickly social and mobile technologies changed the customer experience landscape, I believe the seeds of the next big thing(s) in customer experience management have already been planted.

For example, survey invitations on paper receipts are going away, replaced by electronic receipts or as data stored in the cloud. And the explosion of mobile apps created by franchise organizations will accelerate this trend away from paper-based requests for customer feedback.

Next, we're seeing the impact of location services embedded in smartphones. Now you can ask for customer feedback through a mobile app shortly after they leave a specific location. And with the same visit-detection technology, you can ask why customers visit your competitor's locations and learn how that experience compares with yours.

There is another very positive emerging trend I call "Consumer Reports 2.0" that will reduce the negative impact of a few unfair customer ratings on Yelp! Instead, consumers will see a large, representative sample of authentic reviews. Franchisees are going to love this, especially the best performers. We've come a long way, baby!

That's my opinion. For a recent *Executive Critique of the Customer Experience* from the operator's perspective, email me. MUF

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

Become Your Chief Executive Engager!

5 ways to spark greater employee engagement

Engagement means a lot of different things to different people. To some it means happy, satisfied team members. To others, it means working with people who are dedicated and care about the future of the company. And to others, engagement means having people who go the extra mile every time and are enthusiastic and passionate about everything they do. Truth be told, it's all of those things. This kind of full-on engagement is far greater than the sum of its parts.

There's a reason there are nearly 300 million more Google search results for "engagement at work" than "engagement rings." If employee engagement were so easy, we wouldn't all be writing and reading about it. Think about all your team members. How many would you say are actively engaged? If you're like most folks I hear from, that number is nowhere near where you'd like it to be. Disengaged team members could be one of your best untapped resources to improving morale, teamwork, productivity, sales, customer service, retention... the list goes on.

1. Be the manager who cares. Instead of looking at your team as a sea of people, remember that each is an individual who wants to feel valued and that what they do matters. They all have lives outside of work, so take an interest in them as a person, not just an employee. Even small things—a simple email, a few kind words, a handwritten note, an apology, a gift—can make all the difference.

2. Be the best communicator. People leave jobs because of poor management and poor communication. They don't like to feel out of the loop, or be the last to know about major decisions. They don't like to find out at the last minute that they're scheduled to work. It's not enough to give them x-y-z goals without giving them the w-h-y—and the h-o-w to make it happen. As managers, we often underestimate the power of communication. By leaving your team in the dark, you leave room for nothing but frustration, stress, and well, lack of engagement. At the end of the day, your team wants to feel like an important part of the big picture. After all, without them, there would be no big picture!

"It's not your products, services, or strategies that make you more successful than other companies. It's your people."

3. Be the high-fiver. Think about when things go awry in the workplace, or when someone's performance or customer service is less than stellar. Chances are the people at the center of those issues hear about it immediately. Chances, too, are when those same people are on top of their game, they *don't* hear about it. Perhaps it's because top-notch performance is expected. True as that may be, many people list lack of praise and recognition as a top reason for being unhappy in their job. Unhappy team members make for unhappy customers, and unhappy customers make for an unhappy bottom line. Everyone's doing more with less these days, so make it a point to go out of your way to be the cheerleader and congratulator. Whether it's quarterly awards, weekly shout-outs, or high-fives in the hallway, it will feel good—all around—to highlight your team's success.

4. Be the collaborator. Nothing makes people feel more engaged than knowing that their opinions and ideas matter. Let them be involved in decisions that directly affect them. No one knows what it's like to be in their shoes more than they do. Meet with your team often. Talk less and listen more. You just might learn something.

Another good idea: give your people a chance to ask senior management real, meaningful questions. Too often, the direct connection between the "top" and the "bottom" is lost. Connecting those dots offers a kind of transparency that makes people feel respected, important, and valued. What do you get in return? You guessed it, higher engagement.

5. Be the believer. We all long to feel a sense of purpose and meaning in what we do. No matter what the job is, small or large, help your team members find purpose and meaning in their roles. (Sometimes it's incredibly obvious, other times not so much.) Help your team members understand they're an important part of the company's success, no matter what their job is. Sometimes all anyone needs is a believer to get them to think, "I want to do this," rather than "I have to do this."

It's not your products, services, or strategies that make you more successful than other companies. It's your people. How your people feel about their boss is a direct reflection of engagement. At a minimum, your people should respect you. At best, they'll aspire to be like you. Engaged employees will outperform those who aren't engaged any day of the week. 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.*


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Are You Ready?

New PCI 3.0 rules start in January

Hopefully, you've heard that the Payment Card Industry Data Security Standard (PCI DSS) has changed… again. In November 2013, the PCI Council released PCI DSS version 3.0 and set the compliance deadline for January 2015. With only a few busy months remaining, many businesses (including franchisees) aren't even close to compliance with the new standard.

Why change the standard? Changing technologies often improve business efficiency, but aren't bulletproof to the weaknesses consistently found and exploited by hackers. New security regulations like PCI 3.0 are released to protect new technologies against recent hacking trends.

In my opinion, Requirement 4.1 is the biggest PCI 3.0 change for franchisees. Many franchises and chains use satellite communications to connect locations. According to the newest version, it's no longer acceptable to rely on the link provider's system security. Instead, it's *your* responsibility to encrypt satellite communications containing cardholder data so it remains secure.

If your franchisor hasn't already asked you to begin implementing PCI 3.0 changes, they (or your bank) probably will soon. Here are three themes I've seen while reviewing additions to the newest PCI standard.

1) Secure sensitive data

Security clearances aren't only for high-tech companies and weapons manufacturers. For example, restricting access to the administrative portions of POS systems or hotel management applications can lower the chance of malware entering a system. PCI 3.0 digs deep into employee restrictions to safeguard access to customer data with a handful of new requirements.

• Requirement 5.3 reminds us that anti-virus protection shouldn't be able to be altered without managerial approval. If anyone can turn it off, they could leave a business vulnerable to malware entering the system.

• Requirement 7.1.1 requires a role-based access control system. This means employee access to card data and systems should be granted only on a need-to-know basis.

• Requirement 9.3 is all about controlling physical access to sensitive areas. If an employee's job doesn't require them to have access, make sure they don't have access.

2) Review, revise, repeat

From my security experience, many breaches are caused in part by a lack of process review. Errors can easily occur because of ignorance, poor planning, lack of attention, or timing and can lead to security decay. The PCI Council definitely thought that double-checking software, processes, and devices was an important part of a secure business environment.

• Requirement 9.9.2 ensures merchants regularly examine POS devices to make sure they haven't been tampered with. This is especially important in the case of POS systems left out in the open and unattended for a lengthy period, such as gas station terminals.

• Requirement 10.6.2 states the importance of reviewing logs of all system components. Periodically reviewing logs helps determine if suspicious activity is occurring.

3) Document, document, document

Documentation is a four-letter word to most franchisees. Who wants to devote precious resources to documentation? Well, the upsides are significant. Documentation is the failsafe that keeps your hands clean, keeps your company transparent, and keeps your security efforts organized. That's probably why PCI version 3.0 has so many new requirements about documentation.

• Requirement 1.1.3 asks merchants to create a cardholder data-flow diagram to show how cardholder data enters and flows through the network.

• Requirement 2.4 requires a document that lists all "in-scope devices" and their function (this means every POS system, computer, mobile device, etc.).

• Requirement 9.9.1 is very similar to 2.4 and requires merchants to maintain an up-to-date list of all devices including physical location, serial numbers, and make/model.

• Requirement 11.1.1 asks merchants to maintain a complete list of authorized wireless access points and justify why they are needed in the business environment.

• Requirement 12.8.5 requests two lists: 1) the PCI requirements your third-party service provider meets, and 2) a list of PCI requirements your business is required to meet. This requirement is an attempt to avoid miscommunication between third parties and merchants on who is responsible for which PCI requirements. In a franchisee's case, it would probably be beneficial to have a similar list explaining the security responsibilities of both you and your franchisor.

Conclusion

Even though I didn't go over every change from PCI 2.0 to PCI 3.0, I hope you can take what you've learned and begin to apply it in your security processes today. Start examining your physical devices for tampering, begin your list of wireless access points, and instigate company-wide role-based employee access. I promise you'll be more secure. Not to mention, close to compliance by the oncoming deadline. MUF

Giles Witherspoon-Boyd, *PCIP, is enterprise account manager at SecurityMetrics and assists businesses in defining their PCI DSS scope. For more information about SecurityMetrics, visit www.securitymetrics.com.*

It's a New World!

Technological convergence brings changes

Throughout modern history, periods of heightened innovation and technological advance were followed by a relatively radical step up in the human condition as new industries, processes, routines, and services became commonplace. In the mid- to late-1800s, the United States became truly united with the completion of the transcontinental railroad and interconnected waterways, while subsequent advances in electricity, plumbing, engineering, and medicine accelerated the efficiencies of life and business dramatically.

Recent advances in such things as robotics, computer processing and storage, sensors, materials science, and synthetic biotechnology have brought us to the verge of another new era, one with significant long-term implications for investors. While many of these technologies have been around for decades, recent progress has brought us to a critical point of *convergence*, teeing up the global markets for intense change. We expect this convergence to vastly change and drive the world to a new and higher plane.

The bulk of these developments are beneficial to emerging economies, which can use new technological advances to leapfrog developed countries that have aging installed infrastructure. If deployed correctly, these technologies could benefit people across the world, transforming nations and moving billions of people into the global middle class.

While computers have been around for decades, their applicability and ubiquity have been driven by steep declines in price and size, and increased processing power. Today's $400 iPhone, for example, contains the same processing power that a $5 million supercomputer did in 1975.

Similarly, inexpensive access to data has altered all sorts of daily interactions, jobs, and job descriptions. Thirty years ago, we used encyclopedias and libraries to find information. Today, Google responds to 6 billion inquiries a day, and Wikipedia is a constantly improving, richer trove of free information than even the most complete encyclopedia set was a decade or two ago. The era of Big Data is here and we have only begun to exploit its implications. We don't just have chemists and biologists, we now have a need for data scientists. We've moved from servers to the cloud, where good credit and a great idea can launch a business in a matter of days.

One of the most important attributes of all of these changes is that they are distributed broadly and facilitate many applications for social interactions. While many decry the fact that in-person interactions are being changed by technology, the flip side is the increasing ability to connect with an ever-broader pool of family, friends, co-workers, and others. Government agencies such as NASA regularly "distribute" challenges and problems on the web for scientists and casual problem-solvers alike to noodle on. Social media, the Internet, and services like FaceTime, Instagram, Pinterest, and Facebook allow for the nearly instantaneous—and sometimes viral—transmission of ideas. Take the recent "ALS Ice Bucket Challenge" for example, which took Facebook by storm, ensnared the current and several former U.S. presidents, and quickly raised tens of millions of dollars. Industry after industry has been irrevocably changed by converging technologies. Here are just a few examples:

- Google's driverless cars have logged 500,000 miles on traffic-congested California highways with just a single accident. That accident, incidentally, was caused by a human overriding the car's system.
- Sensors (basically, incredibly small, light, cheap, and virtually disposable computers) are on just about everything, and the Internet of Things has arrived. Amazon, Walmart, FedEx, etc. track and move goods through their distribution facilities and delivery networks by barcoding and installing sensors on everything. By some estimates, 9 billion "things" are already connected to the Internet with the expectation that 1 trillion will be within the next 20 years.
- Sensors on bridges already tell us when repairs are needed. Sensors in airplane parts can radio repair teams on the ground to have new parts ready when a plane lands.
- Vastly improved imaging techniques and nanomaterials have put the U.S. on the verge of being the world's largest exporter of oil *and* gas. This vision of the future is the exact opposite of the post-peak-oil environment pundits had placed us in less than a decade ago.

What's ahead for investors

These advances are exciting for consumers, business owners, and investors alike. Unfortunately, given the pace of change, it is tough to predict with any specificity precisely how they will all play out—particularly when it comes to investment implications.

Many benefits are likely to accrue to large, well-heeled and cash-rich old line companies that can adapt and adopt quickly. Similarly, investing in cash-rich technology companies with active research arms and numerous investments in new technologies is probably a safer way to play transformative technologies than trying to "bet" on a single IPO.

At the turn of the 1900s, if the U.S. had focused on subsidizing dying buggy whip and wagon wheel industries at the expense of spending on electrification, enhanced manufacturing, and plumbing, think how vastly different subsequent decades may have played out. Similarly today, the core need for investors, employees, and citizens in general is to stay watchful and nimble as implications of convergence present themselves in the years ahead.

My full perspective on "Convergence: Transforming technologies in the early 21st century" can be found on the insights page of the abbotdowning.com website. 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 DEAN ZUCCARELLO

Keeping It Real

6 factors to consider before selling your real estate assets

Historically in franchising, real estate was coveted as a key strategic asset. Most franchisees overwhelmingly preferred to acquire the real estate as part of any new development and/or acquisition they were contemplating. Over the past 20 years we have observed an evolution in this franchise–real estate dynamic. Many franchise owners with substantial real estate holdings have been selling properties, and fewer new units are being developed with fee-owned real estate. Why the change?

1) Market valuation. As franchising has entered into a state of maturity, many franchisees have amassed large portfolios of owned real property. Because many of these portfolios have little to no debt on them, a large untapped component of value exists. Additionally, we have seen an overall decline in interest rates over the past decade. This translates into lower cap rates on real estate, which in turn results in higher values. Single-tenant properties are trading at 15- to 20-year peaks. Not too long ago, double-digit cap rates were the norm, but today we are seeing mid-single digits. On a location with annual market rent of $100,000, a decline in cap rates from 8.0 to 7.0 translates into an increase in value of approximately $180,000. Multiply this by the number of fee parcels owned, and it can be a compelling argument.

2) Return implications. Most franchisees (entrepreneurs, private equity, and institutional) are generally seeking higher returns from their franchise investments. As the saying goes, "If you're not a seller at that price, then you're a buyer." Tying up capital in single digit–return real estate assets means you are willing to accept a lower real estate return on the capital invested in those assets. For many franchisees, this does not achieve their return objectives. As a result, many franchisees have opted out of their lower-return real estate and put their capital to work in higher-returning operating assets.

3) Diversification. Although real estate is a different asset class from the franchise itself, the success of both is linked. Some dynamics affecting the franchise don't affect the real estate and vice versa. However, in most cases the two are joined at the hip. Selling fee-owned real estate and redeploying it into another type of investment provides overall portfolio diversification for the seller.

4) Financing implications. Historically, real estate financing was available with much longer terms and amortizations. The current climate has changed, with lenders generally electing to reduce their risk by shortening the lives of their loan portfolios. The ability to secure longer-term financing with lower debt service is not as available as it has been in the past.

5) Tax implications. Depreciation benefits from real estate also have been reduced over time. Congress has systematically lengthened the effective life of the benefits on depreciable real estate assets, resulting in a loss in the present value of those benefits, effectively making real estate more expensive to purchase. And franchisees with real estate they have owned for longer periods have seen many locations use up their allotted depreciation benefits.

From a capital gains perspective, selling has never been more attractive. While capital gains taxes have risen marginally since 2012, they continue to be at relatively low levels, historically speaking. There is no guarantee that rates will not increase in the next few years given the growing government deficit.

6) Sale of business. Finally, one frequent situation we encounter is the seller's decision process of whether or not to sell their owned real estate along with the sale of their business.

From early in their development, many franchisees, especially long-time operators, adopted a strategy that one day they would sell their business but keep the real estate so they could enjoy the rental income as an ongoing source of cash flow and security. Their thinking is: *"I have a debt-free (or nearly debt-free) asset, I am familiar with it, I don't have to pay capital gains taxes on the sale of the real estate, and I will live off the cash flow."* Is it truly that simple? No. Is this really the right answer? Like most things, it depends. Every situation is different. Here are a few important factors to consider:

- *Personal financial plan.* First things first: make sure you develop a post-sale financial plan. Different sellers will be at different stages of their lives, resulting in different long- and short-term needs. Investment risk profiles can be very different. The decision to sell or keep your real estate should fit into this plan.
- *Risk assessment.* This is often overlooked by sellers. Real estate has a different risk profile in the hands of a new owner/operator of the franchise business. Don't fail to recognize these risks and assume that you are collecting a risk-free annuity.
- *Portfolio diversification.* For many selling franchisees, the value of their real estate represents a significant percentage of their overall net worth. If so, be careful not to fall into the trap of allocating too much of your net worth to a single-profile investment (one brand, concentrated geography, same asset class, single lessee, etc.). Look at the value of the real estate and ask yourself: *"If someone gave me a check for this amount, would I commit all of it to buy nothing other than this real estate?"* This analysis often provides an interesting perspective. Always consider alternative investment options. Just because current real estate holdings have been a successful investment to date (as the owner of the operating business), it doesn't mean keeping it is the right investment for the future.
- *Performance of the brand.* The value of the underlying real estate is directly related to the overall success of the brand and

the operator of the franchise. If the real estate you own is in a struggling or down-trending concept, or the strength of the buyer/lessee is substandard, it will affect the long-term value of the real estate.

• *Underlying market dynamics of the real estate.* Is it subject to a possible decline in market value over time? Can the market move away from your location? Does your location have substantial long-term upside for alternative tenants? Make sure to adequately consider the quality of your real estate from the perspective of alternative uses and don't focus solely on the income aspects from the proposed new tenant.

• *Taxes.* Don't make the decision to keep the real estate because you won't have to pay taxes on the sale. Eventually you will be held accountable for paying these taxes in some way, shape, or form. If keeping the real estate is not ideal, you might be better off paying the tax man and redeploying your assets. Capital gains taxes are at an all-time low, so selling today might be more advantageous than in the future. Also consider the possibility of a tax-free exchange as an effective deferral strategy that can also provide asset diversification.

• *Buyer acceptance.* Consider that by electing to keep the real estate, you accept the future operations and asset condition of the new buyer. Many sellers find out after the fact that they have a very difficult time accepting the way their stores are managed post-sale. If you continue to own the real estate, it only makes it more difficult to sit on the sidelines and watch someone else run what used to be your business.

• *Partial sale.* Finally, keep in mind that the decision to sell doesn't have to be an "all or nothing" decision. Consider the possibility of keeping a balanced portion and selling the rest. MUF

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Here Comes 2015!

What do you still *not* know about your business?

Now that we're nearing the end of 2014, it's time to refocus on the business with an eye toward planning for 2015. I'd like to suggest that you look a little farther ahead and reflect on the issues I've outlined below.

Over the years, I've encountered far too many business owners who spend weeks planning their vacation (if they take one at all!) and virtually no time planning for the business that makes those vacations possible.

Watch cable news, scan a few TV commercials, or flip through any newspaper these days and it would seem there are no mysteries any more. Let's face it, we know far too much about far too many people's habits, problems, and proclivities. We have more factoids, tidbits, inklings, stats, blogs, and so-called expert opinions (legal and otherwise) than we can use in a lifetime. That is, except when it comes to the workings of our own business—most often our single biggest investment, the entity into which we've poured a lifetime of effort. Yet at the core, it can be as mysterious as the bottom of the sea.

Here are some of the more interesting "unsolved mysteries" we've encountered from conversations with business owners:

"Why am I so confused over what my profit was for the last 3 years and what my actual inventory is at year-end?"

"Why does my balance sheet show a negative net worth, and what can I do about it?"

"Why does my new banker insist that I pay off my credit line now?"

"When are Mom and Dad finally going to retire, and which of my siblings will inherit the business? Is there a written buy-sell plan in place somewhere?"

"Why do I feel like my dad's CPA gives me the run-around when I try to get answers?"

Forcing the issue

We've found there's a consistent process in unearthing and resolving these mysteries. Here are a few of the major ones we've found over the years:

• **Catalyst events.** Death, illness, and infirmity bring transition issues to a head. Lack of previous planning usually brings unpleasant surprises.

• **New banker in town.** Credit lines need to be paid off, timely and accurate financials submitted, and questions answered.

> **"I've encountered far too many business owners who spend weeks planning their vacation and virtually no time planning for the business that makes those vacations possible."**

• **Joining an industry peer group.** Especially when you have to share your financial data and, as they say in the biz, "Get naked in front of your group." You start seeing your business, muffin tops and all, and think about a plan to get it in shape.

• **Declining markets/increased competition.** Nothing like that new chain coming to town to get you on your toes!

• **New outside advisor, CPA, or coach.** A good sign is when you hear them ask, "That's interesting, can you tell me why you handle X that way?" way before you start hearing any advice.

• **Defining moment.** It could come from a great book, a peer who has successfully faced the same issue, or someone who kept their head in the sand until it was too late. If it doesn't come from outside influences or events, sometimes it comes from within. The simple question, "What am I going to do today to make things different tomorrow?" is where it all starts.

• **Bring in an outside party if appropriate.** We can't tell you how many times we've seen an apparent irresolvable family business dispute resolved when a skilled intermediary is brought in.

• **Where do you go from here?** You can't do it alone. Get help. Join a peer group, find someone who's been there, done that, and/or assemble a great team of advisors.

Conclusion

Be determined. Don't take no for an answer, but be patient. If your financial statements are a mess, it will take some time and patience to get them accurate. Keep the faith that it will happen, just not overnight.

Realize it's usually the question you are most afraid to ask that must be answered. Take a minute now to write down the answer to this question: What am I pretending not to know? MUF

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

BY DARRELL JOHNSON

Vital Statistics

FDDs need more useful, actionable detail

When evaluating a brand, experienced operators have two big advantages over first-time prospects. First, they know what questions to ask. Second, most of the time they know what a good answer looks like.

The first advantage really isn't all that much of an advantage. Common sense leads prospects to ask many of the most relevant questions. In addition to how much they will be asked to invest and how much can be made from that investment, some of the more frequently asked questions include: the franchisor's financial position, the experience of the franchisor's management team, the amount of training and support, brand marketing efforts, and the performance of units and franchisees.

The second advantage is usually considered the big one. Knowing what good answers are to the questions above makes all the difference in how a prospective franchisee reaches a decision about a brand. It removes emotion from the equation and puts objectivity in. The primary reason for this advantage is that the franchise business model lacks performance standards to reasonably compare one brand with another. Because of this, even experienced operators have trouble assessing a brand without investing a lot of time and effort.

Let's look at some of these questions… and the state of available information. The amount needed to buy in is, of course, available in an FDD with reasonably sufficient detail to have a decent understanding of the investment, fees, and required payments. Disclosing how much can be made seems to be a big problem for all but a few brands. Experienced operators need only a few key data points on a particular brand's performance to formulate a good idea of the returns that should be achievable (depending on the industry). A small but growing number of franchisors have enough detail in their Item 19 to allow anyone to make that assessment. Why don't more do it? I think brands with really good performance increasingly will do so. I'm surprised it hasn't happened to a greater degree already, as it would clearly enhance a brand's competitive position for the best prospects.

The franchisor's financial position is clearly revealed in an FDD. One could argue that the remainder of the topics listed above also are documented in an FDD. Of course the experienced operator knows that having information and having *useful, actionable information* are two different things. Take management experience for example. An FDD provides some biographical information about the management team. But how useful is it? The same goes for training, support, and marketing. An FDD contains a lot of information, but is it useful and actionable? For the most part, it isn't. The experienced operator is able to discern and evaluate that information in ways a first-time prospect has no chance of doing. Yet even experienced operators must address a key challenge: context. When is a management team's experience enough? What about individuals within a management team? If the CEO has 40 years of industry and franchise experience but the rest of the team is right out of college, is that okay?

"Even experienced operators have trouble assessing a brand without investing a lot of time and effort."

Outcomes and causes

Finding answers to these questions is becoming an imperative, and easier than you might think. Let's separate the possible key factors a prospect, experienced or not, might consider and put them into two groups. Call the first group "outcomes" and the second group "causes."

Let's consider relevant outcomes in franchising to include unit performance, system stability, and franchisor results. Obviously, sales are important in the context of unit performance. In almost all franchise sectors, unit returns are driven by two or three other line items. In retail food, for instance, rent, food, and labor costs get a prospect most of the way to a decent unit performance evaluation. And finally, how quickly a unit gets to profitable performance is important. Franchisors know and track these numbers, or at least they should.

At the system level, continuity rates are important—as is an understanding of the discontinuity rates—with a simple distinction between real financial/operational failure and units that have disappeared for other reasons. Again, any good franchisor should have these numbers. With that information, system stability would be pretty clear.

And last, a franchisor that manages its operations well should be making profits and building a stronger balance sheet. Of all of the outcomes, this is the only one that is easy to get out of an FDD.

If we had just that information, we would have the foundation to consider all the causes in a reasonable context. Causes are often qualitative judgments, such as franchise relations and management experience. But with the right outcomes as a foundation, we should be able to establish benchmarks for causes. For instance, if a management team has developed a brand with solid unit economics, strong system stability, and good financial returns to the brand owners, wouldn't you conclude that the management team has "enough" experience? I'm pretty sure I would.

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