MULTI-UNIT FRANCHISEE MULTI-BRAND 50 ISSUE II 2015

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ISSUE II 2015

50 BY 50

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Page 60

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2015 MUFC Is Around the Corner!

Greetings fellow franchisees,

It is nearing time to attend the 2015 Multi-Unit Franchising Conference (MUFC) in Las Vegas, April 8–10. This year's theme is "Shaping the Future," and it is a highly apt one given the events of the past 12 months. Franchising has been faced with unprecedented and serious challenges: historically punishing weather in the Northeast and Midwest, drought in the West and Southwest, the inability to find enough dependable workers anywhere, crippling new frontiers of regulation, and strident attacks against the very franchise model itself. What a year!

Since we last gathered for the MUFC, many of the more controversial things that were discussed have come to pass. Most notably, the National Labor Relations Board (NLRB) reached beyond its traditional purview into franchising in an attempt to erase the distinction between franchisee and franchisor. This, of course, ignores the status of entrepreneurial franchisees who own their businesses, the enormous amounts of independent capital that franchisees have invested in the U.S. economy, and the distinct intellectual property rights of franchisors, among many other issues. You can expect much discussion of this and other hot topics in Vegas.

While all this has been happening, however, franchise leaders who are regular, repeat attendees at the conference have been busy developing new means of dealing with these headwinds, as well as devising new ways to solve the age-old problems of high utility, insurance, and commodity costs and difficult real estate markets. Even better, they are eager to share the fruits of their efforts with their colleagues in April. They are determined to shape the future—and none of them envisions a future where they make less money than they did last year.

The MUFC has forged a platform where many of us can meet people in strikingly similar situations, helpful people we otherwise might never encounter. And, through its franchisee-only Conference Advisory Board, the annual event has created a continuing medium of communication between extraordinary franchisees of all sizes and geographies, as well as many new and ongoing friendships. This communication channel has also spread to cutting-edge suppliers with new and exciting technology, products, and services, along with emerging and established franchisors, who have faced and solved problems that others are facing for the first time. All come to the MUFC prepared to collaborate and move their businesses forward, shaping their future through preparation and innovation.

New attendees have told me they have never received as much value from any other conference or educational forum as they do at this premier event. I felt precisely the same way after I first attended. This results in return visits as the conference grows year over year. All of this will occur this April in an invigorating venue full of both business and social networking events, all developed based on the desires of previous attendees.

Since past attendees highly rated any access they had to our experienced Advisory Board members, this year we are providing even more access in an expanded Welcome Reception exclusively for franchisees, where fellow board members and I will be available in an informal setting for free-ranging discussions and socializing. Board members will also be available at the new "Meet the Speakers" roundtable event. This conference, by listening carefully to what past attendees and multi-unit franchisees have requested, delivers.

So I invite you to join me and other franchising leaders in Las Vegas. This franchisee from snow-driven New England is certainly looking forward to trading giant snow banks for palm trees and warm sunshine!

ROBERT BRANCA, JR.
Chair, 2015 MUFC

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✓RANKINGS *Check out our annual rankings*

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

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*Figures reflect averages for 150 franchised restaurants that were in operation continuously for 3 or more years and that provided us with complete financial information for the full calendar year of 2013, as published in Item 19 of our April 2014 Franchise Disclosure Document. These averages are based on a 52-week annual period from January 1, 2013 through December 31, 2013. Of these 150 restaurants, 64 restaurants (or 42.7%) attained or exceeded the average total gross sales and 69 Restaurants (or 46%) attained or exceeded the average EBITDA. A new franchisee's results may differ from the represented performance. There is no assurance that you will do as well and you must accept that risk. This offering is made by prospectus only.

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MULTI-BRAND 50

The Power of More

Multi-unit operators branch out, brand up

BY KERRY PIPES AND EDDY GOLDBERG

Franchising is easy: all it takes is a lot of blood, sweat, and overcoming fears to open and successfully operate a franchise unit—not to mention multiple units of a single brand. But for a certain breed of entrepreneurs, one brand is not enough. Usually, they're seeking to minimize risk. But sometimes it's the challenge of managing several brands, providing a variety of products and services, and learning best practices from different systems. Or maybe they're just gluttons for punishment (ask any multi-brand operator).

Multi-brand franchising offers not only a diversified portfolio that reduces organizational risks, but also the economies of scale that make a big difference to the bottom line. But as with any successful business, it takes talent, hard work, capital, and a healthy, functioning infrastructure.

For the past 8 years we have called on FRANdata for the latest data on multi-brand franchising. In this issue you'll find their list of the top 50 multi-brand franchisees in the country, along with a list of their 25 favorite brands. Restaurant brands continue to dominate. Some of the most popular this year are Pizza Hut, KFC, Taco Bell, Burger King, and Hardee's. You'll find the rankings on page 72.

While stats can be useful, even fun, the real stories are the human element, the people behind the numbers. We tracked down a group of dedicated multi-brand operators who represent a mix of small to large organizations, each with at least two concepts. Their stories are unique, yet they have common threads: a passion for great concepts and products, a customer-driven focus, an eagerness to provide jobs and opportunities to their employees and communities, and a burning passion to grow their business. Here's a preview of what you'll see in their profiles:

- **Steven Taylor** and **Chris Smith** say that operating more than one brand just makes their business better. The partners, who operate 3 Smashburger locations and 14 Moe's in the Carolinas, are aiming to reach 50 restaurants and/or $50 million in sales by the time they're 50 (they're 40 and 42). It's a tall order, but one they're certainly on track to reach.
- **Craig Comer** was a successful tax accountant with Deloitte & Touche in Detroit. But he had a dream to pursue his own business. In 2003, he walked away from a six-figure income to open his first Liberty Tax location. He now has five units and is the area developer for Liberty Tax in northern Indiana and Ohio. Recently, to balance out his seasonal tax business, he's added six Mosquito Joe territories.
- **Judy Ewing-Lonetti** and **Sandy Dunn,** friends and business partners for three decades, operate three brands in North Carolina's bustling Charlotte Douglas International Airport: Brioche Dorée, Cinnabon, and TCBY. Says Dunn, "I think it has succeeded because we both have the same work ethic and vision of what we wanted to accomplish. It didn't hurt that we were friends before we were business partners."
- **Harsh Ghai** thinks big: big family, big plans, and an ever-growing stable of brands. The California-based family business operates 56 Burger Kings, 9 Taco Bells, and has signed on with Corner Bakery Cafe to develop 8 units. His company did $70 million in business in 2014 and is shooting for $81 million this year. Not enough? He plans to have as many as 200 restaurants within the next 10 years.
- **Randy Merrill** is feeling good about his health and wellness-focused franchise brands. When we profiled him in 2011, he was operating a Massage Heights, a Cartridge World, and 14 Solar Dimensions Tanning salons (non-franchised). He's since sold the Cartridge World and has opened a second Massage Heights unit and four Joint Chiropractic Clinics, and has signed a deal to open four Amazing Lash Studios this year.
- **William Bruce** has been busy with major changes since we profiled him in 2012. Early last year, he left Abundant Brands, where he had spent a half-dozen years and was overseeing more than 250 Subways and a dozen-plus Costa Vida restaurants, to join Encore Enterprises, a Dallas-based commercial real estate company. Today, as president of Encore Restaurants, the $2 billion company's restaurant division, he is overseeing 8 Five Guys Burger and Fries with 45 more in development in central California, and 2 IHOPs with 2 more under construction.

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The franchise business is an expensive one.

As a franchisee, you already know that opening up a new store can cost anywhere from $50,000 to $5 million depending on your industry. But then there are the ongoing costs of training, advertising, insurance, and other fees. It becomes increasingly important in this line of work to have access to the capital you need with as few barriers as possible.

Finding the time to do everything necessary to maintain a successful franchise is one of the biggest challenges franchisors and franchisees both face. There is an easy way to overcome the obstacle of time and that, according to Christian Faulconer, CEO of Franchise Foundry, is by, "Lining up proper financing and the right team."

While finding the right team is up to you and your staff, lining up financing should be a weight off your shoulders. You need a financing team, product, and package that *serves it like you serve it* – fast, easy, and affordable.

Richard Henderson, Vice President of Franchise Financing at Direct Capital says, "Franchisees are seeking quick and easy access to capital at attractive rates and terms to deliver on burdensome, but critical, obligations to upgrade technology and remodel, as well as to strike quickly as acquisition opportunities present themselves."

That's why getting access to that capital shouldn't be difficult. In order to run a successful franchise business, you don't always have time to navigate a long and involved credit approval process. When you want to open a new restaurant, remodel your existing restaurant, or replace equipment or technology, you want to do it *now*. This means you need a funding process that's smooth and expedient, and a financing partner that knows your business.

So how do you choose a lender? Henderson recommends that you first look for a "reputable lender before you need one. Do your homework and find one who can provide references from happy franchisees in your brand with whom they have worked. Prior customers should attest to the lender's speed, ease, flexibility, and attractive terms."

But why? Chances are, if you are not facing a mandatory equipment upgrade or remodel today, you will be soon. As more and more competition faces the franchise market, CMOs and CTOs are increasingly looking to cutting edge technology upgrades to gain an edge. Henderson says that today's POS and POP technology, for example, can provide an incredible competitive advantage. "Today's point of sale and point of purchase systems 'get to know' consumers and automate the cross-sell/up-sell process while easily integrating with mobile payments providers, marketing applications, ecommerce software, and loyalty programs." Having a lender that understands the value of acquiring these systems and is eager to lend to lend you the money to do so is a crucial first step.

Once you feel confident that you have found a lender who is suited to supporting your financing requirements, ask yourself if their ease, speed, and affordability is up to your standards. You need to always be focused on what you do best: serving your customers and building your business. Your lender should handle the rest. Ask them to explain what is involved in the loan application and funding process. Does it seem fast and easy? Ask if you can speak to a representative directly if you prefer a one-on-one relationship. If they give you options to customize your experience to best suit your needs, you will feel better and more confident that you have made a good choice.

Then, you need to discuss with that lender your specific needs because building a relationship with your financial lender is crucial to your success. In your world, making your business thrive is a priority and your lender is a big part of helping you achieve that. Henderson adds, "A reputable lender understands the unique needs of your franchise system, is willing to gain an in-depth understanding of your business and your long-term goals, and should be more than happy to do all of the 'heavy lifting' involved in the application and funding process for you. Many service providers tend to forget who works for whom!"

Lastly, when your lender presents you with terms, consider them carefully. This includes evaluating and selecting payback options, understanding the true all-in rates offered, and considering how the payments fit in with your cash flow. Much like your lender did, you also want to make sure you can handle all of the terms of the finance agreement. Don't dig yourself into a hole. Get the financing you need, but do it on terms that make sense for your budget.

Henderson says, "Look for a lender who helps you comfortably match debt service with cash flow so completing projects requiring financing doesn't create an unreasonable burden on your business in the future."

Whether you are brand new at the franchise business, or have been at it a long time, with these steps in mind, carefully selecting a financing partner will be a breeze. Just remember: Speed, efficiency, and building relationships are the three pillars of a one-in-a-million franchise financing strategy.

BY HELEN BOND

50 by 50

"Welcome to Moe's!" (and Smashburger!)

Chris Smith (left) and Steven Taylor

The way Steven Taylor and Chris Smith see it, operating multiple brands just makes their business better.

"I got tired of hearing for so long, 'This is how every franchise does it'; or 'This is how it has always been done,'" says Taylor, a franchisee of Moe's Southwest Grill and Smashburger. "I was excited about branching out and diversifying to another concept and learning how they do it—and try to do it better. We have done that and have been able to cherry-pick the best of each brand and incorporate that into our own company."

At 40, Taylor and his partner Smith, 42, are gearing up for growth. The duo, who have three Smashburger locations and 14 Moe's in North and South Carolina, aim to operate 50 restaurants or post $50 million in sales by age 50. Under the umbrella of BrandStormers LLC, they are developing 8 additional Moe's and 12 Smashburger restaurants in the Carolinas.

Goal-setting is nothing new for Taylor, who early on inked a life plan to be a busi-

NAME: Steven Taylor and Chris Smith

TITLE: Owners, operators, partners

COMPANY: BrandStormers LLC

NO. OF UNITS: 14 Moe's Southwest Grills in the Carolinas and a minority interest in 13 Moe's in the Washington, D.C., area; 3 Smashburgers in the Carolinas

AGE: Taylor, 40; Smith, 42

FAMILY: Taylor: Wife Jill, sons Hunter, 8, and Michael, 6; Smith: Wife Amy, daughter Avery, 9, and son Loudon, 5

YEARS IN FRANCHISING: 11

YEARS IN CURRENT POSITION: 11

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ness owner at age 30. At 29, with his self-imposed deadline looming, Taylor turned his focus from selling medical supplies to franchising as the smartest and swiftest route to achieve his dream.

Armed with loads of confidence, but zero ownership experience and just $30,000 in the bank, Taylor turned a business cold call with a large Subway franchisee into a life and career game-changer. The franchisee group, which was looking to invest in a young entrepreneur, liked what they saw in Taylor—and fronted him $400,000 to open a franchise of his dream restaurant brand. Taylor's first Moe's Southwest franchise opened 11years ago at the University of South Carolina in Columbia, his alma mater and hometown. With help from Smith—and a college town location—the restaurant soon became the top Moe's unit in the state.


Steven Taylor

Smith's journey into franchising came after his own career epiphany before turning 30. He had quit his corporate banking job and moved to Austin to try his hand at music… when business beckoned.

" I burned out quickly on the corporate world and made a pledge to myself either to quit and start my own business or become a professional singer/songwriter," says Smith. "After a couple of years and still struggling, Steve presented a great opportunity to partner up and try our hand at the restaurant business."

PERSONAL

First job: *Taylor:* age 15, worked in a snow cone hut selling shaved ice. *Smith:* age 16, a shoe salesman at Houser Shoes.

Formative influences/events: *Taylor:* My father, Tom Taylor, and my mother, Nancy Taylor, for instilling in me confidence, morality, and a desire to succeed. *Smith:* Working in and leaving the corporate world.

Key accomplishments: *Taylor:* 40 under 40, *Charlotte Business Journal;* Moe's Franchise Partner of the Year (2011); Smashburger Rookie of the Year (2014); Moe's Franchise Advisory Council Member (2008–2011); youngest Moe's Franchise Advisory president at 35 (2010); Moe's Menu & Food Committee chair (2008–2011); Moe's Market of the Year Award, Columbia, S.C. (2006); assisting with the start-up of Friends of Epworth.

Biggest current challenge: *Taylor:* Obamacare and rising food costs. *Smith:* Growing and shaping Smashburger to the point that it predictably runs systems and profitability like our Moe's. We get better every month.

Next big goal: 50 units or $50 million in sales by age 50.

First turning point in your career: *Taylor:* Forcing myself to start my own business by age 30 and finding someone to invest $400,000 in me at such a young age. *Smith:* Moving outside our home base (Columbia) and purchasing the Augusta market.

Best business decision: *Taylor:* Believing in Moe's Southwest Grill and the emergence of Americanized Mexican as a food category. *Smith:* Partnering with experienced franchisees. When we started, we had two great, quasi-silent partners who were great mentors. They were Subway franchisees with 40-plus units who loved Moe's as well. After three years, we bought them out of Moe's. Working with them was like being given a playbook on how to be successful restaurant operators.

Hardest lesson learned: *Taylor:* You can't do it all yourself. *Smith:* Thinking that the work chemistry Steve and I have can be replicated with other partners.

Work week: *Taylor:* 50 to 60 hours a week. *Smith:* Consumed with weekly meetings on Mondays and Tuesdays with our various teams within the organization. By Wednesday, I'm able to start working on more strategic activities. I am usually in my home office or stores 50 hours a week. Plus, I'm usually checking email or taking the occasional call at night and on the weekends. I do my best though to "turn it off" from Friday night through Sunday night.

Exercise/workout: *Taylor:* Addicted to CrossFit. *Smith:* As a data nerd, I'm currently all about my Fitbit. I've learned that I'm a horrible sleeper and I don't take enough steps in the day. On a good week, I can get 3 or 4 workouts in. My preference is running.

Best advice you ever got: *Taylor:* Rules without relationships lead to rebellion!

What's your passion in business? *Taylor:* Establishing successful new locations while seeing people flourish and blossom in our existing business. *Smith:* Data, analytics, technology. We are using all of that to build a smarter, more enjoyable, more profitable operation.

How do you balance life and work? *Taylor:* Enable, empower, and entrust people to make the right decisions. *Smith:* Developing systems at work and getting people to buy in to those systems allows us to step away when non-work life needs to begin.

Guilty pleasure: *Taylor:* Häagen-Dazs chocolate and peanut butter.

Favorite book: *Taylor: Philosophies and Traditions* by Russ Umphenour. *Smith: Outliers* by Malcolm Gladwell.

Favorite movie: *Taylor:* "Caddyshack." *Smith:* "Star Wars."

What do most people not know about you? *Taylor:* I was terminated from a restaurant while in college. *Smith:* I had perfect attendance from kindergarten through my senior year of high school. My grandmother called the high school principal to make sure he knew of my attendance. Embarrassingly, she told this story at an awards banquet. Not my coolest moment.

Pet peeve: *Taylor:* Dirty tables and apathetic employees.

What did you want to be when you grew up? *Taylor:* A small-business owner like my father. *Smith:* At age 8 or 9, I remember wanting to become a professional basketball player.

Last vacation: *Taylor:* Took my family skiing to Snowbird/Alta, Utah. *Smith:* China for two weeks in the summer of 2014.

Person I'd most like to have lunch with: *Taylor:* My wife. *Smith:* Stephen Colbert.

QUAKER STEAK & LUBE
EAT

Learning To Franchise – the Sears Way

Five years ago, Keith Edquist became one of the first franchisees for Sears Hometown and Outlet Stores (SHOS). But he almost wasn't a franchisee at all. In fact, he'd never been a franchisee in his nearly 50 years in the retail and wholesale appliance business.

"I know people who have a lot of franchises in the food industry, but I never thought I would find myself in the franchise business," he says. Today, going on 71, he has 10 franchised Sears stores open in Phoenix, Tucson, and Las Vegas and is building an 11th. "Most are former company stores," says Edquist. Seven are Sears Home Appliance Showrooms and three are Sears Outlets. "I have built three and the fourth will be the Outlet I'm building in Phoenix."

He knew a lot...

Edquist, who built his own wholesale appliance distribution company in Omaha (Husker Hawkeye Distributing), is savvy enough to know that he can't succeed on this scale alone, and not remotely from Nebraska. About a year ago he brought in two partners, Jeff and Steve Roebke, to help him manage the "somewhat phenomenal" growth of his Sears stores.

"They're minority shareholders, but I consider them full partners. It's the best of all worlds: Steve is a top finance and accounting guy, Jeff is a top operations guy, and my son Rich is a marketing guy."

In fact, it was his son who got Edquist involved in franchising. "He had an interest in a Sears Hometown store in the Phoenix area where he lived, and was familiar with the appliance business," he says. When they put in an inquiry for that store, Sears responded with an offer to sell them three company-owned Home Appliance Showrooms in the area, and they were off and running.

...but Sears knew more

"There are certain things that are very important in the appliance business—knowing your product thoroughly and how to present it. Once you've mastered that, get the product to the customer and make sure they're taken care of," he says.

Edquist knew his product, but he didn't know franchising. "I'm not a typical franchisee," he says. "The franchise world had never come across my radar screen. I've learned quite a bit about it in the past 5 years."

He also learned plenty about his business. "I thought I knew a lot about the appliance business, but Sears knew a lot more," he says, especially about logistics, marketing, and personnel—as well as buying power. "I've done all of those things well over the past 50 years, but Sears does them better," he says.

"They take away some of the heavy lifting. When I was in the business, we did our own buying, service, advertising, etc. Most of this is done by Sears," he says. "We could never have gotten to the size we are now without the kind of expertise Sears has. They certainly have taken a lot of the work away."

With Sears handling the essentials, Edquist has more time to work *on* the business. "I spend a great deal of time with my Sears people in the stores," he says. "I manage and lead by walking around in those stores, making sure the little details are taken care of."

For Edquist, the people factor has been the big difference in his rapid growth and success. "Personnel has been key to this whole thing. Sears trains them better, which is a benefit for the customer."

Still, when he acquired those three company stores in Phoenix he wondered why the employees would want to work for him, instead of a big company. Several reasons, as it turned out: "They do better financially, they're treated better, and they have a better opportunity for movement up," says Edquist. In fact, he adds, "Two of my managers own their own stores today, and that makes me feel pretty darn good!"

As of November 1, 2014, Sears Hometown and Outlet Stores, Inc. and its dealers and franchisees operated 1,257 stores across all 50 states as well as in Puerto Rico and Bermuda. Many of those early franchisees were large multi-unit franchisees, primarily in the restaurant business—and Edquist appreciates their expertise.

"Having the key franchise people we do is making us better. If you have somebody who has 50 to 70 franchise stores in the food business, they can teach you a lot about franchising, which makes us all better," he says. "I consider myself a pretty lucky guy being able to work with them."

Final thoughts

"This is not an investment, not a get-rich-quick scheme. You have to work at it," says Edquist. "It's a great partnership. I wish I could have started into this 20 years ago. I've spent a lot of time in business and had a lot of fun, but this is the most fun I've ever had in business," he says.

"The sky is the limit—even for me, nearly 71. We have 11 stores in major markets," he says. "I cannot see how I ever would have been this size as an independent retailer in Omaha." Plus the winter golf's a lot better in Arizona and Nevada.

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- **Cleveland:** Huber Heights, North Olmsted and Willoughby, OH
- **Milwaukee:** Cudahy and Wauwatosa, WI
- **Minneapolis:** Coon Rapids and Minneapolis, MN
- **Philadelphia/South Jersey:** Newark, DE; Voorhees and Cherry Hill, NJ and Philadelphia, PA
- **Pittsburgh:** Bridgeville and Pittsburgh, PA
- **Richmond:** Chesapeake and Richmond, VA
- **Washington, D.C.:** Silver Spring, MD & Prince William, VA

Each **Sears Outlet Store** offers shoppers more than 20,000 square feet of retail space stocked with hundreds of outlet-value products across a broad assortment of merchandise categories – home appliances, lawn and garden equipment, apparel and more – all marked significantly lower than manufacturers' suggested retail prices.

Franchise owner benefits include:

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- Ongoing support and training across all areas of the business

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MANAGEMENT

Business philosophy: *Taylor:* We have a *passion* for providing *perfect* food in a happy, safe, productive, and energetic environment where people can *flourish* personally and professionally. We *always* do the right thing, even when no one is watching. *Smith:* Systems, systems, systems.

Management method or style: *Taylor:* Great people running great systems. *Smith:* Have fun and set people at ease, so you build trust, coach, mold, and grow.

Greatest challenge: Establishing and maintaining good management infrastructure while growing aggressively.

How do others describe you? *Taylor:* Intense, direct, humorous. *Smith:* Have high expectations for myself—and others, maybe?

One thing I'm looking to do better: *Taylor:* Minimize turnover. *Smith:* Measure Moe's true speed of service. Moe's says we want guests to order and pay within three and a half minutes, but we have no way of truly measuring that. I found a tracking system that we've recently rolled out to two stores and plan to roll out to more of our stores. Soon, we hope to have a true understanding of how many guests truly get that 3-minute, 30-second promise.

How I give my team room to innovate and experiment: *Taylor:* We often test new technologies or systems in a single store and we allow the DMs/GMs to own it and report back to the group on the results.

How close are you to operations? *Taylor:* We are BFFs. Nothing is more important than operations. *Smith:* I'm in the stores usually three days per week or more. I have an office in one of our locations.

What are the two most important things you rely on from your franchisor? *Taylor:* Additional systems and marketing support. *Smith:* Keeping food supplier costs under control; and innovation to keep the brand moving forward (mobile ordering, mobile payments, etc.)

What I need from vendors: *Taylor:* Trust, reliability, performance. *Smith:* Cost control and transparency. We have a linens provider that would not budge on price while other competitors could provide the exact same service for half the cost. They continue to lose our business as each store's contract ends.

Have you changed your marketing strategy in response to the economy? How? *Taylor:* We have made it out of the Great Recession, which has encouraged us to get more aggressive with marketing in general, thus we are spending more money on marketing. *Smith:* Yes. We had to choose to be bad at something if we couldn't be great at it. We couldn't be great at TV, so we cut it and poured our efforts into outdoor, social media, and several local campaign promotions.

How is social media affecting your business? *Taylor:* It is good for building awareness and loyalty. However, we have been forced to spend more time and energy monitoring sites like Yelp, Google reviews, TripAdvisor, Urbanspoon, etc. for customer comments and complaints. *Smith:* It's integral to our marketing approach. Five or more years ago, it was nonexistent in our marketing plans.

How do you hire and fire? *Taylor:* We use an online application and assessment tool for new hires. If the candidate passes the assessment then they are highly likely to perform better and work within our system. We do background checks on *all* new hires. We discourage using the word "fire" because it's derogatory in nature. We are dealing with human lives here, so let's be courteous in everything we do. People are watching. *Smith:* We've been rolling out Corvirtus in both concepts. We send interested candidates to a Corvirtus website where the candidate completes a pre-screening evaluation. If they're a "red" we don't interview. "Yellow" we may interview. "Green" we usually interview. Regarding firing, we have a progressive discipline approach. However, there are some unforgivable offenses like "no call, no show." I like to say, with a good employee handbook bad employees will inevitably "fire" themselves.

How do you train and retain? *Taylor:* We offer significant bonus plans plus great benefits: 401(k), paid vacation, health insurance, life insurance, etc. We build relationships with our employees. *Smith:* We are testing a centralized training approach where a market will have a training manager located at one store in that market. New hires go to that training store for at least a week. The training is a mix of online and hands-on learning.

How do you deal with problem employees? *Taylor:* We try to create a business culture that does not tolerate problem employees. Be part of the solution, not part of the problem. You can tell a lot about your business culture by describing the last three people you asked to leave. *Smith:* Coach them. If they're receptive to it, then we can grow the relationship. If they aren't, their employment will end one way or another.

Fastest way into my doghouse: *Taylor:* Dirty and unorganized stores with apathetic employees not paying attention to customers or food quality. No passion to run a successful store.

Taylor soon noticed that Smith was "working harder than I was, and he wasn't an owner at the time," he says. "I had a lot of respect and admiration for Chris, so we carved out a piece for him."

It was a telling test run for their future partnership, where titles aren't important. Smith is now known as "Head Nacho" while Taylor is the "Big Burrito." The duo credit their success since opening their first store to being free thinkers willing to try new things in a franchise culture often set in its ways. Adding Smashburger to their portfolio three years ago as a way to diversify opened their eyes to new ways of doing business.

Chris Smith

Smashburger, for instance, is good at analytics, says Taylor. Moe's does a great job focusing on ticket times, but lacked concrete data to back up how well employees met the metrics corporate set. Smith, a self-described "data nerd," found a photo tracking system that they've rolled out in two stores. The technology eliminates guesswork by assigning a real time to customer service.

"Moe's says we want the guest to order and pay within 3 minutes and 30 seconds, but we have no way of truly measuring that," says Smith. " Soon, we hope to have a true

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This kind of operational savvy is just a sample of what Smith and Taylor have been cooking up that has caught the eye of the entrepreneurial world and earned them numerous awards. Taylor and Smith also are minority owners of 13 Moe's stores in the Washington, D.C. area—a venture launched with two other Moe's franchisees in 2012 under the name Guac N Roll LLC. The group has secured the rights to develop 20 additional Moe's restaurants in the D.C. area, with a particular focus on northern Virginia.

Looking back, Taylor still "can't believe they loaned me $400,000" to achieve his career dream. Taylor and Smith eventually bought out their angel investors in a "sweet deal" that allows them to repay the loan over 10 years with a low interest rate. The partners expect to easily meet their next career target of 50 stores, and will just have to ratchet up their goal when it happens.

"We are trying to build a brand," says Taylor. "It hasn't been easy. It takes time and tenacity." MUF

BOTTOM LINE

Annual revenue: We will do more than $20 million in sales in 2015.

2015 goals: Greater than 5 percent same-store sales growth, and keeping *The 4 Disciplines of Execution* (Chris McChesney) top of mind for employees.

Growth meter: How do you measure your growth? New starts and same-store sales.

Vision meter: Where do you want to be in 5 years? 10 years? 50 units or $50 million in sales by the age of 50. **5 years:** 40-plus units 10 years. **10 years:** 50-plus units.

How is the economy in your region affecting you, your employees, your customers? The economy has been strong in our area for quite some time now since the Great Recession. We are starting to see more competition for the same spaces. Hiring has become more challenging because of increased competition. Customers will start to have more choices, making competition for stomach space fiercer.

Are you experiencing economic growth in your market? Yes. There are two ways to grow: 1) grow an existing concept in other markets; or 2) take on a new concept in your existing footprint. We are doing both.

How do changes in the economy affect the way you do business? Less aggressive business decisions in a looming recession. But about 2½ years ago we started making more aggressive business decisions based on a speech by economist Brian Beaulieu at a Vistage meeting. I'm very happy we acted on that advice.

How do you forecast for your business? Drive same-store sales and create a road map with milestones for new store openings. Follow the road map. Remember that it takes 9 to 15 months to open a new location from start to finish (LOI, lease, architectural planning and permitting, construction, etc.). It is a long process.

What are the best sources for capital expansion? Small, regional, relationship banks. My experience has been that large banks don't like restaurants because we don't have a lot of assets (but we do have significant EBITDA).

What are you doing to take care of your employees? We offer significant bonus plans plus great benefits: 401(k), paid vacation, health insurance, life insurance, etc. We build relationships with our employees.

How do you reward/recognize top-performing employees? *Taylor:* Celebrate success! We have recurring yearly competitions such as The White Glove Inspection, where the cleanest store in our system wins $100 gift cards for all store employees and the GM gets an extra week of paid vacation. We also pay $1,000 extra bonus for the highest Steritech Food Safety audit score, franchisor inspections, and secret shoppers. ***Smith:*** General managers who have been a GM for at least two years become eligible for our Operating Partner program. If we invite them to join as an Operating Partner, they earn a certain percentage of EBITDA on a quarterly basis. Additionally, we have all kinds of contests for same-store sales growth and QSC scores.

What kind of exit strategy do you have in place? *Taylor:* Once we achieve the $50 million in revenue or 50 units, we intend to sell to a responsible buyer. We are starting to own more and more of the real estate we occupy, so the intent would be to collect rent from a future buyer. ***Smith:*** Why, are you interested in buying us out?


DUNKIN' DONUTS COFFEE & MORE

BY HELEN BOND

A Brand for All Seasons

Taxes and mosquitoes provide year-round revenue

When it comes to operating multiple brands, Craig Comer has discovered that differences can attract—profits, that is, for his two very different service brands.

Comer, who owns five Liberty Tax stores in Detroit and the surrounding suburbs, was itching to diversify when a postcard arrived in the mail from Mosquito Joe. Comer had considered the pest control company as a potential brand. Then a summertime phone call to his dad to discuss the opportunity sealed the deal.

"My cell reception in the house wasn't very good," says Comer. "So I went outside in the evening to talk and I got bitten alive by mosquitoes."

In July 2013, Comer took a road trip to Virginia Beach to meet company founder Kevin Wilson, who had launched the franchise system earlier that year. Comer was quickly sold on Mosquito Joe's system, leadership, and a seasonal operation that begins when the need for tax services ends.

"I liked the concept—and that I could take my employees from the Liberty side and give them year-round employment," says Comer, who has a background in ac-

NAME: Craig Comer

TITLE: President of Liberty Tax (franchisee), and area developer for Liberty Tax; managing owner of Mosquito Joe

COMPANY: Comer Inc.

NO. OF UNITS: Liberty Tax, 5 units; Mosquito Joe, 6 territories

AGE: 39

FAMILY: 4 kids and 2 dogs

YEARS IN FRANCHISING: 13

YEARS IN CURRENT POSITION: 13 with Liberty Tax, 1.5 with Mosquito Joe

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counting. "This is exactly what has happened and has worked out even better than I thought."

Since signing on with Mosquito Joe, the 39-year-old has hit the expansion ground running, snatching up six territories to combat critters in five counties between Detroit and Lansing, Mich. Along the way, he discovered creative avenues for operational crossover and a solution to combat the biggest obstacle in running a seasonal business: employee retention.

"One of the challenges with these businesses is losing people and then having to retrain and rehire every season, which is normal," says Comer. "Each year that goes by, retention will get higher. It just takes a lot of effort now to find the right people."

Comer was itching to diversify when a postcard arrived in the mail from Mosquito Joe.

Comer has five full-time employees, including a Liberty Tax general manager who also is the office manager for Mosquito Joe. With projections for 10 full-time employees next year, he will continue to seek ways to create full-time jobs for key employees—a strategy that is good both for business and for his employees.

Comer, who has embraced the chance to provide opportunities to the people who work for him, recounts the journey of one employee he is particularly proud of: a single mother who faced hardships growing up in the inner city. Three years ago, she started with Liberty Tax in an entry-level position. Through hard work and Comer's mentorship, she recently became certified in tax preparation. She also worked wonders at Mosquito Joe, helping Comer reduce receivables from $40,000 to $4,000. This tax season she will serve as a manager and transition to Mosquito Joe as a supervisor of the call center. "It is exciting to see people grow like that and be able to help," says Comer. "That is one of the things I really enjoy."

The Michigan native has yearned to be

PERSONAL

First job: Maintenance member at the local golf course. I did cart maintenance, bartending, and learned a lot from the business owner. I worked there from the age of 15 until college.

Formative influences/events: My father has been my main influence as my mentor. He told me to always fear the underdog. I also have a good friend I worked for during college who taught me a lot about business. One of the pieces of advice he gave me was, "The more you give, the more you get."

Key accomplishments: I was salutatorian of my high school, ranked top 10 in my MBA program at Michigan State, and I had the most charge hours at Deloitte. With Liberty Tax I have won various awards such as Top Gun, Lead 18, and the Choose Your Attitude Award. With Mosquito Joe we were Top Franchise.

Biggest current challenge: Employees. My small businesses are seasonal, so hiring and having enough qualified employees for each season is a challenge. Therefore, it's important that once we find good employees we take good care of them.

Next big goal: To reach $1.2 million in revenue for Mosquito Joe this coming season.

First turning point in your career: Leaving Deloitte to buy Liberty Tax was a big step for me. In 2002, I walked away from a promotion and a big raise that would have given me a six-figure salary.

Best business decision: Same as above: buying a franchise. Both the franchises I have invested in have great systems and leadership teams.

Hardest lesson learned: Not getting rid of bad employees fast enough.

Work week: It's all over the place. I used to work seven days, but now my rule is that working on Saturdays is optional and Sundays are off limits. Monday through Friday I work from sun-up to sundown.

Exercise/workout: I play basketball from time to time. My life is consumed by kids' activities and work.

Best advice you ever got: My dad: Always fear the underdog. If you're on top, don't take it for granted because it could turn on you in a heartbeat. The same philosophy applies if you're at the bottom—if things aren't going well, that won't last long either.

What's your passion in business? Given how I was raised and coming from a small town, I like helping people. I really enjoy helping to better the lives of my employees. For instance, with my financial background, I like to help them save for retirement. I work hard at making my employees feel like they're a part of the family.

How do you balance life and work? I made the rule of having Sundays off for my family and for myself. I started Liberty Tax when I was 25–26, so I worked ungodly hours and I sacrificed a lot. Now that I'm 39, I'm focusing on investing more time in my children and myself.

Guilty pleasure: Steak and potatoes every day—and a beer.

Favorite book: *Atlas Shrugged.*

Favorite movie: "Hoosiers."

What do most people not know about you? I hold the free-throw record for my high school.

Pet peeve: People who complain.

What did you want to be when you grew up? In junior high, I wanted to own my own business. My uncle in Florida has been self-employed his whole life, and my dad has always been semi self-employed, so they had an influence on me while growing up.

Last vacation: Besides the one I'm on right now in Orlando with my family, it was a road trip I did last October for a Mosquito Joe conference in Washington, D.C. I got to watch a Tigers game and attend a friend's wedding.

Person I'd most like to have lunch with: It's a tie between two people: Derek Jeter and Ronald Reagan.

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MANAGEMENT

Business philosophy: Work hard and treat people the right way. I believe it is important to empower employees and not to micromanage. Allowing employees to make decisions makes for a more fulfilling career for them. It's also important to have career goals. Sports has had a heavy influence on my life, and I have implemented a scorecard system for my team members so that we're all on the same page in terms of our company's goals. For instance, to reach my goal of $1.2 million in revenue for Mosquito Joe, we have a scorecard of how many people we should be servicing per day to achieve that goal. It helps us to figure out if we're falling off pace so we can act promptly. With seasonal businesses, I don't have 12 months to generate revenue—I only have four months, so if we are off track we have to correct the issue straightaway.

Management method or style: It was hard at the beginning, but I've learned to delegate and empower my staff to produce better results.

Greatest challenge: Finding the right employees for service-based jobs. We don't have an inventory or food costs, so our focus is on employees. It's a challenge to hire enough people, train them, monitor their progress, and retain them for the next season. The goal is to retain at least 40 percent of employees for the next season to alleviate the hiring challenge. To maintain that retention rate we do a lot of activities to keep our employees happy. We have an employee event at least once a month, such as going out to dinner, bowling, or barbecues. The key employees from Liberty Tax also work at Mosquito Joe, so they have a year-round job, which helps with retention.

How do others describe you? I'm very competitive and stubborn, but compassionate. I am a nice guy, which is why it's hard for me to fire people.

One thing I'm looking to do better: It's in progress: investing more time in my kids and myself. As I'm getting older, I am really focusing on enjoying life more.

How I give my team room to innovate and experiment: I don't bark commands. I constantly ask my team members for their advice and input because they're the ones in the battlefield and the community. I also have contests for best ideas among staff members. For example, my Liberty Tax employees come up with great marketing ideas, such as giveaways.

How close are you to operations? Very close. I'm in it every day. Even on this vacation I've contacted my general manager three to four times throughout the day.

What are the two most important things you rely on from your franchisor? Strong leadership and a good operating system. Both Mosquito Joe and Liberty Tax have these qualities.

What I need from vendors: Quality products delivered in a reasonable amount of time.

Have you changed your marketing strategy in response to the economy? How? Yes, since starting Liberty Tax 13 years ago, things have changed a lot. Direct mail and Yellow Pages don't work anymore. When the economy was bad and people were out of work, they stopped filing returns, but that's changing for the better now. We do more online marketing for Liberty Tax and we're texting and using social media to reach our customers. The stronger economy has also meant that the housing market has improved, so there are more homeowners and more of a demand for our services with Mosquito Joe. We rely on referrals, especially through social media. The key thing is that we prove ourselves and provide a good service so that we get more referrals.

How is social media affecting your business? We encourage our customers to give us positive referrals on social media.

How do you hire and fire? I have managers who handle this, and we provide tools for them to monitor the progress of staff members.

How do you train and retain? We do a 10-week class for Liberty Tax that is low cost. We hire people based on their attitude, so if you have a good attitude and know how to deal with people, you're the perfect fit. We also help with licensing and educating our employees throughout the tax season because there are certification levels they need to go through. With Mosquito Joe we interview for three months and have a training session before the season starts. We also assist with licensing. We hold weekly meetings with the Mosquito Joe team to keep them up to date.

How do you deal with problem employees? As soon as we come across a situation. Again, with the seasonality of the business, if we don't correct something and take action, it magnifies for the rest of the season.

Fastest way into my doghouse: Lie, cheat, and/or steal.

an entrepreneur since junior high, when his father (who was also his fourth-grade math teacher) opened a mutual fund for him that Comer still has today. In December 1998, he earned an MBA in professional accounting, taxation, and finance from The Eli Broad Graduate School of Management at Michigan State University, then joined the corporate tax office of Deloitte & Touche in Detroit.

At the public accounting firm, one of the "Big Six" at the time, Comer got an exhaustive crash course in entrepreneurship, working with small businesses and family-owned companies. After one 20-hour charge day, where he slept at his desk, he was ready to pursue his business dream. On Jan. 1, 2003, Comer walked away from a promotion and six-figure salary to open his first Liberty Tax location. He bought his carpet, computer, and office desk with money the firm partners gave him at his going-away party. "I never looked back," he says.

Comer, who opened one Liberty Tax store annually in his first five years in business, is also an area developer in northern Indiana and northern Ohio for the brand, considered the fastest-growing tax preparation business. A top Liberty Tax franchisee, he wrote the training manual for the franchise and has traveled the country to

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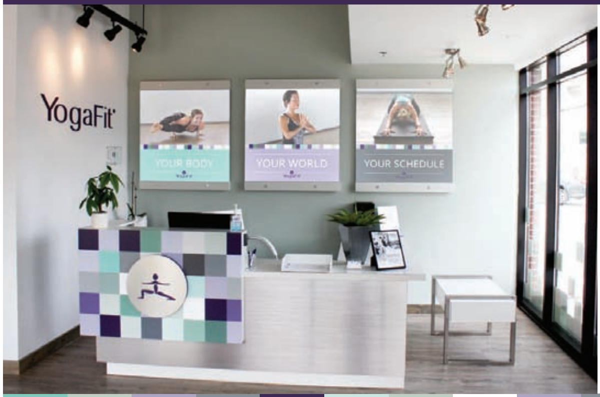

assist with franchisee training and bringing new prospects to the brand.

With business brisk at his Liberty Tax stores, Comer has turned his attention to hiring 50 technicians and call center employees for Mosquito Joe and expanding the brand's presence over the next three years with at least six new territories in Michigan.

Still, Comer isn't taking his business success for granted, due in part to a hard lesson learned at age 12 when his father advised him, "Always fear the underdog." A passionate fan of baseball and all things sport, Comer watched his beloved Detroit Tigers—a "sure thing" in 1987—lose the division playoffs to the Minnesota Twins. Today, Comer happily believes he is on the winning side of those words, which still stick with him.

"'Always fear the underdog.' That is how I feel as a small-business owner with Liberty Tax going up against H&R Block, and Mosquito Joe going up against the big guy," says Comer. "We are the underdog—but we are hungrier." MUF

BOTTOM LINE

Annual revenue: $1.9 million between Mosquito Joe and Liberty Tax.

2015 goals: $1.2 million in revenue for Mosquito Joe.

Growth meter: How do you measure your growth? For Liberty Tax, it's the number of returns in revenue. For Mosquito Joe it's the revenue and number of clients we retain.

Vision meter: Where do you want to be in 5 years? Grow my total revenue to $4 million to $5 million for both companies. **10 years?** Total revenue of $8 million to $9 million.

How is the economy in your regions affecting you, your employees, your customers? More disposable income and more home ownership have driven the demand for mosquito and tax services. As the economy gets stronger, employment has been higher, and there has been more of a demand for tax services. Also, our client base has increased with Obamacare, because fewer people are filing their own returns.

Are you experiencing economic growth in your market? Yes.

How do changes in the economy affect the way you do business? They have affected how we do our marketing. We rely less on old-fashioned marketing such as radio and TV. We rely on referrals, reviews, partnerships with nonprofits, and fundraising events. We have dozens of ways to get a client without spending a dime.

How do you forecast for your business? With my finance background, I like to budget a few months before business begins. I have been able to forecast pretty accurately with Liberty Tax based on my experience.

What are the best sources for capital expansion? I have a credit line at my bank that I applied for a long time ago—before I needed it. Getting money when you need it is harder than being prepared. I also have my parents and the franchisor itself.

Experience with private equity, local banks, national banks, other institutions? The only experience I have is with my local bank, where I have developed a long-term relationship with the manager. Based on that relationship, I can walk into the bank and ask for something and it happens. My business partner is close to 80 years old, so he has a retirement fund, which is a form of private equity.

What are you doing to take care of your employees? We go on monthly outings, and I have season tickets to the Tigers and take my staff to the games.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? It is adjusted into the pricing of our services.

How do you reward/recognize top-performing employees? I like to celebrate employees in front of other staff members to create a positive atmosphere and recognize them for a job well done. We give small rewards, such as grocery cards, dinners, and movies. We also give bigger rewards, such as sending them on trips.

What kind of exit strategy do you have in place? Given my age and where I'm at, I don't have an exit strategy, except that I want to retire by 50. One of the benefits of being a franchise means that the business is more marketable and there's an existing system I can sell to.

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BY HELEN BOND

Partners and Friends

30-year relationship blossoms in perennial success

Judy Ewing-Lonetti (left) and Sandy Dunn

Franchisees looking for insights into succeeding with a partner can learn a thing or two from multi-brand franchisees Judy Ewing-Lonetti and Sandy Dunn. Mutual respect is the cornerstone of their 30-year business relationship. They know they wouldn't be where they are today without one another.

Their company, Charlotte-based Ewing-Dunn, is a mainstay at North Carolina's Charlotte Douglas International Airport, where they operate coveted food franchise locations under three different brands: Brioche Dorée, Cinnabon, and TCBY. In the coming months, they will add an Auntie Anne's and at least one additional food franchise when construction is completed on a new concourse at the airport, which set an all-time record in 2014 with more than 44 million travelers.

The pair met at a gift show 35 years ago when Ewing-Lonetti, as national sales director for a large gift company, was selling and Dunn, general manager at Charlotte Douglas for Dobbs House, was buying. Five years later, their complementary expertise, along with Dunn's proven airport experience, would help

NAME: Judy Ewing-Lonetti and Sandy Dunn

TITLE: CEO and Vice President

COMPANY: Ewing-Dunn Inc.

NO. OF UNITS: 1 Brioche Dorée, 1 Cinnabon, 1 TCBY

FAMILY: Judy: married, 3 daughters, 5 grandchildren; Sandy: 1 son, 4 grandchildren

YEARS IN FRANCHISING: 21

YEARS IN CURRENT POSITION: 30

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them land a successful bid for their first airport location. Their strong wholesale and retail backgrounds made the pair a perfect fit to incorporate. But it was their special friendship that led to the turning point in their careers.

Ewing-Lonetti was simply supporting a friend when the pair met for lunch three decades ago to talk about Dunn's career options. Dobbs House had just lost a bid to HMSHost, and Dunn, divorced and a single mother, was mulling over her next move, including out-of-state to work for the concession operator at another airport.

"I told Judy, 'If I had any sense, I would probably propose an ice cream parlor at the airport myself,' because it was a good location," remembers Dunn. "About 30 minutes later, Judy said, 'Why don't we do it.'" When the opportunity came up for bid three weeks later, they formed Ewing-Dunn, which would evolve over the years to include gift stores and, 21 years ago, their first food franchise.

> **"You always hope it will be a long-lasting partnership. But we were too busy to worry too much about that at the time."**

"I worked through high school and college and my brain, my way of thinking, has always been business-oriented," says Ewing-Lonetti, who serves as CEO of Ewing-Dunn. "I loved the airport business, so it was particularly intriguing to me to form a partnership with Sandy that would be our own entity." They didn't think much about what the future might hold—they were just trying to launch a business.

"I guess you are optimistic and always hope it will be a long-lasting partnership. But we were too busy to worry too much about that at the time," says Dunn, vice president in charge of daily operations.

These days, the partners focus on meeting the ever-changing needs of the traveling public and growth opportunities at one of the world's busiest airports, which recently announced a 20-year expansion plan. With all their brands under one roof, they take advantage of intelligence gathered from two sources: the brands, which know what their customers want; and constant survey data compiled by HMSHost to identify who is traveling through the Charlotte airport and what they are looking for in an airport store.

Both women say they are proud of the strong relationships they have created with franchises—even when a store hasn't worked out. "They understand it's just business and they have to get their act together and make serious changes if they want to stay at the airport," says

PERSONAL

First job: ***Sandy:*** Before Ewing-Dunn, I was the general manager for Dobbs House Inc., which handled food and retail at the Charlotte airport. The only other job I had before that was Mercy Hospital, where I worked in the dietary department for about a year, supervising the food service on the floors and working with the special diet patients on their menus.

Formative influences/events: ***Sandy:*** My grandfather and father both owned businesses and were a big influence on me.

Key accomplishments: ***Judy:*** We are very proud to be female multi-unit, multi-brand franchisees and to have been in business together for 30 years. We grew from owning an ice cream parlor to owning as many as five franchises at one time. We credit our friendship and complementary business skills as paramount to our success. I focus on strategy and long-term goals and Sandy focuses on day-to-day operations. ***Sandy:*** Our key accomplishment has been to grow from one ice cream parlor to as many as five stores at one time, both retail and food concessions.

Biggest current challenge: ***Sandy:*** Our location at the airport. Growth opportunities are often dependent on new concourses being built at the airport. In terms of hiring and retaining staff, employees who work at the airport must deal with parking challenges, getting fingerprinted, and going through security each day.

Next big goal: ***Judy:*** Our next big goal is to open our new Auntie's Anne's store at the airport this year.

First turning point in your career: ***Judy:*** Forming our partnership and company and opening the ice cream parlor at the Charlotte airport 30 years ago. ***Sandy:*** The first turning point in my career is the same as our best business decision: going into business with Judy.

Best business decision: ***Judy:*** Getting into the airport franchise business was our best business decision.

Hardest lesson learned: ***Judy:*** Learning to be patient in business. Patience gives you a much better insight into what you're about to do. ***Sandy:*** To learn that I cannot expect all people to do the things the way I would do them. I have tried throughout my career to be accepting and balance perfectionism.

Work week: ***Sandy:*** Since airports are open 365 days a year, my work week expands to seven days a week, many weeks of the year.

Best advice you ever got: ***Judy:*** From my husband who said, "Don't jump; think it through." This advice applies to everything. ***Sandy:*** Mine is from my parents, who told me to be honest and do things the right way the first time.

What's your passion in business? ***Sandy:*** We love our jobs and coming to the airport each day. I love interacting with our staff and customers. We both always try to do everything as best as we can.

How do you balance life and work? ***Sandy:*** At times, you do the best you can, especially when you're opening a business. You always have to take time for your family and friends.

Favorite movie: ***Judy:*** "Gone with the Wind." ***Sandy:*** I love movies, but it's hard to pick a favorite.

What did you want to be when you grew up? ***Sandy:*** I wanted to go to college and study food and business, which I did at the University of Tennessee. ***Judy:*** My dream as a child was to move west and raise horses. I now have a horse farm outside Las Vegas.

Last vacation: ***Judy:*** My last vacation was to Italy, where I enjoyed the food, history, and friendly locals. ***Sandy:*** I enjoyed a fun beach vacation last year.

Person I'd most like to have lunch with: ***Judy:*** Harry Truman. ***Sandy:*** It's hard to pick just one. It ranges from Golda Meir to Oprah Winfrey.

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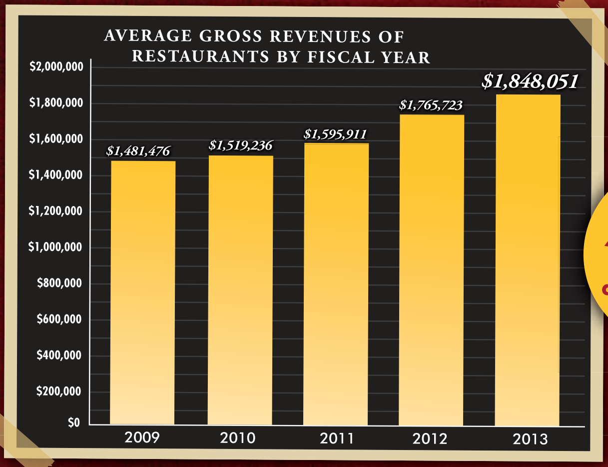

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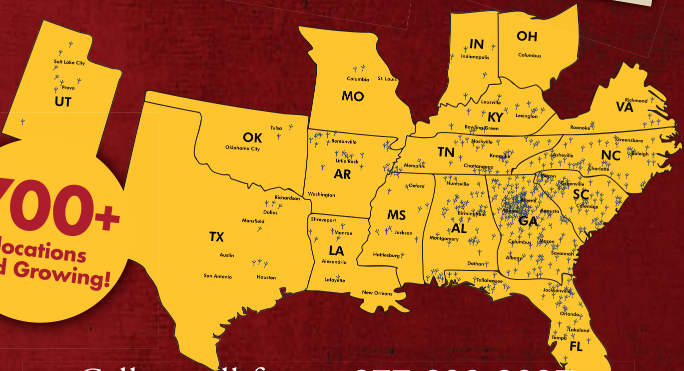

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Chart above shows the Average Annual Gross Revenues of Restaurants open and operating for each of the 2009 through 2013 fiscal years. Please note that Fiscal Year 2012 average is the actual average of all Restaurants open and operating for the period beginning on December 26, 2011 and ending on December 30, 2012 and Fiscal Year 2009 through 2010 is the average of the middle third of Restaurants based on gross revenues of all Restaurants opened and operating for that fiscal year. Fiscal year 2012 includes 53 weeks and all other years include 52 weeks. The data attached in calculating this Chart is based solely on the operating results of the Restaurants that were open and operating during the entire applicable fiscal year © 2014 Zaxby's Franchising, Inc. "Zaxby's" is a registered trademark of Zaxby's Franchising, Inc.

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Ewing-Lonetti. "They get pushed because we get pushed. Our city wants our airport to be the very best airport there is, and it is up to Sandy and me to do our part to ensure that everything looks great and is new and fresh."

Time has only enriched their business partnership and deepened a relationship that goes beyond friendship. Since that lunch date 30 years ago, when the idea for Ewing-Dunn was born, they have had each other's back through thick and thin: the death of Ewing-Lonetti's first husband, a serious health issue with Dunn's son, the marriages of their children, Ewing-Lonetti's remarriage, and grandkids.

"I don't think we would have gone into the venture if we didn't think we could make it work," says Dunn. "I think it has succeeded because we both have the same work ethic and vision of what we wanted to accomplish. It didn't hurt that we were friends before we were business partners."

MANAGEMENT

Business philosophy: *Sandy:* Enjoy what you do and do it the best you can with business integrity. Strive to be the best.

Management method or style: *Sandy:* I train each of our employees individually. I don't ask any of our employees to do anything I wouldn't do myself. I work side by side with our employees.

Greatest challenge: *Sandy:* One of our challenges is recruiting and retaining really great employees. We have several employees who have been with us for 10-plus years.

How do others describe you? *Sandy:* We are well respected by the airport community and by franchisors. *Judy:* Ewing-Dunn has always had a superior relationship with every franchise we have ever had. The ones we have had to give up still think we are terrific.

One thing I'm looking to do better: *Judy:* We are proud of our 30-year tenure at the Charlotte airport. We are always striving to keep up with the competition and new trends, including improving social media skills.

How I give my team room to innovate and experiment: *Sandy:* We like to allow employees to experiment and innovate with their products. Any time you let your employees contribute they take more ownership of the business, which is positive, not only for our company, but also for our brands.

How close are you to operations? *Sandy:* We are immersed in operations every day.

What are the two most important things you rely on from your franchisor? *Sandy:* Their industry expertise, strong products, and marketing and promotions support. Brioche Dorée, part of Le Duff America, provides regular support to local franchisees with regular promotions and social media outreach. They also helped build buzz locally and nationally through marketing and public relations efforts when we first opened their Brioche Dorée location in April 2014.

What I need from vendors: *Sandy:* To make timely deliveries and understand airport security issues when making them.

Have you changed your marketing strategy in response to the economy? How? *Judy:* Being in the Charlotte airport, our market wasn't affected quite as strongly since our customers are international and national travelers. *Sandy:* We were fortunate that this airport was not affected by the recession as badly as some of the others. The marketing strategy for all our brands is influenced more by changes in what customers want: healthier and fresher products and more choices. Cinnabon presented new products and smaller portions to indulge yourself. Brioche Dorée stresses freshly prepared food and brings in "Limited Time Only" products, as well as new products to give people on the go more choices and healthier options. TCBY presented frozen Greek yogurt and Silk frozen yogurt for those allergic to dairy.

How is social media affecting your business? *Sandy:* Social media is very important to business, but it doesn't affect our business quite as much. Charlotte residents cannot get to our business since it's past security, but increased name recognition from social media is always important.

How do you train and retain? *Sandy:* We put a large focus on training managers and employees before they ever begin working on location. We also like to reward employees by promoting from within the company.

BOTTOM LINE

Annual revenue: N/A.

2015 goals: *Judy:* We will open Auntie Anne's this year. We are always working to keep brands fresh.

Growth meter: How do you measure your growth? *Sandy:* By the increase in sales and profits.

Vision meter: Where do you want to be in 5 years? 10 years? *Judy:* We are looking forward to continued growth and keeping current stores running well.

How is the economy in your region(s) affecting you, your employees, your customers? *Sandy:* Since our stores are located in the airport, our customers come from all over the world so international economies play a key role. For example, if European markets are not performing well, consumers may cut back on international travel, which affects business at the airport.

Are you experiencing economic growth in your market? *Sandy:* Yes.

How do you forecast for your business? *Sandy:* By following airport forecasts including airline enplanements and new concourse developments.

What are you doing to take care of your employees? *Sandy:* Being flexible with scheduling and recognizing them for their contributions.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? *Sandy:* With wage increases and shopping insurance plans.

How do you reward/recognize top-performing employees? *Sandy:* We like to promote from within. We recognize employees with lunches, gift cards, and time off.

What kind of exit strategy do you have in place? *Sandy:* We plan to continue our business for a long time. We don't have any intention of giving it up at this time.

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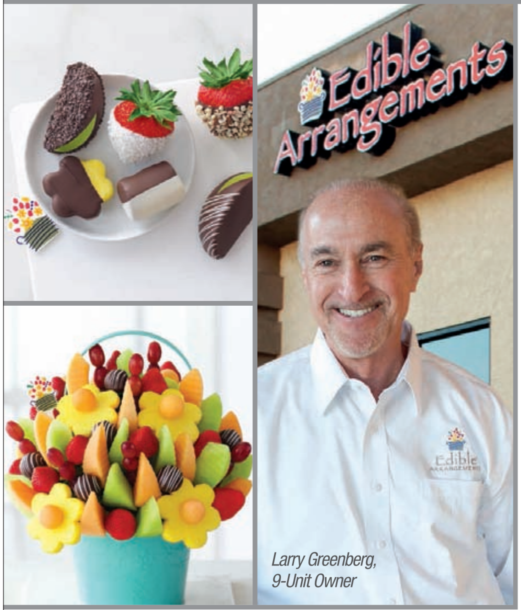
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BY HELEN BOND

Life in the Fast (Casual) Lane

At 30, steering the family business to the next level

Harsh Ghai's northern California-based multi-brand business may be rooted in food and family, but aggressive growth and smart development are the cornerstones of the company's success. Ghai is spearheading the entry of Ghai Management Services, operators of 64 Burger King and Taco Bell restaurants in 4 states, into the fast casual lane. The family-owned company recently opened its first Corner Bakery Cafe in Sacramento as part of an 8-store agreement.

When it comes to the food industry, fast casual is the future, says Ghai, who runs the business with his father Sunny Ghai, who founded the company. "It is the middle ground," he says. "There are amazing brands out there. The Corner Bakerys, Chipotles, and Paneras of the world are coming out and blowing everybody out of the water. It has made competition a lot tougher. It is going to force quick service to elevate itself, and it is going to force casual dining to provide that quick service feel that fast casual does."

NAME: Harsh Ghai

TITLE: Owner/operator

COMPANY: Ghai Management Services

NO. OF UNITS: 56 Burger Kings, 9 Taco Bells, 1 Corner Bakery Cafe (agreement for 8)

AGE: 30

FAMILY: Wife, Gurbir. I got married in December!

YEARS IN FRANCHISING: Our family purchased our first franchised restaurant in 1999.

YEARS IN CURRENT POSITION: 5

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> "To improve your customers' experience, you constantly have to improve the experience of the people who are working for you. It's a no-brainer, but an eye-opening idea."

PERSONAL

First job: Age 14. I worked at our family's Burger King restaurant in Milpitas, California, taking orders as a cashier. I had a little bit of management duty, but was way too young for anything serious.

Formative influences/events: My father has inspired me quite a bit. He basically grew from the bottom and started his journey as a restaurant manager in 1997. I watched him struggle and work hard to get what he did. It gave me a lot of drive to join the family business.

Key accomplishments: Hitting the 65-restaurant level. Being awarded an amazing Taco Bell restaurant by a lead franchisor. To be connected to a brand like Taco Bell told us we had made it, and it is the same with Corner Bakery. It was a proud moment in our company to be awarded the development agreement for this sought-after brand.

Biggest current challenge: Being a part of constant growth is definitely challenging because it spreads your people out thin. We are constantly looking to grow talent from within our company. Additionally, part of business is to buy distressed restaurants that are operationally and image challenged and go in and fix them. This can be operationally challenging, but it is what we have built our business on—from the ground up.

Next big goal: We have a lot of goals. We want to continue to grow in the QSR segment, while establishing ourselves in fast casual, which is where we see the food industry growing in the next 10 to 15 years. This is the reason we are getting into Corner Bakery right now. Finally, we want to acquire and build new restaurants as the economic models for each brand allow us to do that.

First turning point in your career: We ramped up our growth in 2010. It was a big turning point, because we doubled in size that year. This was challenging from an operational standpoint, because we had to facilitate that growth by pushing people up further. That is when we realized we wanted to grow and grow further. We went from 13 restaurants to 25 restaurants in a matter of 6 months.

Best business decision: Diversification is at the top of the list. Not being bound to one brand gives us a lot more scope, particularly on the real estate side.

Hardest lesson learned: I developed three restaurants that never did well, and I ended up closing two of them and selling the third. It was a side venture with another brand, which I did on my own, and I had a bad experience with the franchisor. That failure was a big lesson. I learned that failure was okay and important, and taught me what I needed to be doing differently in the future to ensure success.

Work week: Essentially, Monday through Sunday. I spend Monday through Friday in my own restaurants. Saturday is our catch-up day, and I am always available on Sundays. It is just something that is part of being in the restaurant business and being a restaurateur—you don't have that luxury of having weekends. Working for yourself allows for more flexibility as well, and we love to travel as a family. We go on at least one major international vacation per year.

Exercise/workout: Working in the restaurant industry keeps me on my feet. I go to the gym in the evening and I like to run and do a little bit of lifting. I have taken up golf recently. I'm not finding the time to play as I would like, but it is something I want to get better at and spend more time on, later in life.

Best advice you ever got: "Your guest is never, ever going to have a better experience than the people who work for you." If I like what I do, it should eventually cause the people who work for me to feel the same way. To improve your customers' experience, you constantly have to improve the experience of the people who are working for you. It's a no-brainer, but an eye-opening idea that trickles down from the top and is part of our company mission statement.

What's your passion in business? Food is my passion. Customer service is my passion. And making people happy is my passion. Food is something that makes the world go round.

How do you balance life and work? You really have to find ways. The restaurant business is so demanding and can get overwhelming at times. One thing that works in our favor is that our entire family is involved in our business. We have a lot of extended family members who work for us as well. It makes it very easy to trust people. We built the family around our business and our business around our family. We take time to go on vacations together and have Sunday brunch together. We force ourselves to make that time for ourselves.

Guilty pleasure: Traveling. We love wine and it is easy to love because we live near Napa Valley, and we love the beach. I'm trying to become good at paddleboarding. We love the outdoors. Just getting out and about is a big part of our lives.

Favorite book: *Lord of the Rings.* I am also a big fan of *The Burger King: Jim McLamore and the Building of an Empire* by James W. McLamore.

Favorite movie: "Star Wars."

Pet peeve: My wife and I are both big neat freaks and germophobes—cleanliness that translates big in the restaurant business. You will find our restaurants very, very clean.

What did you want to be when you grew up? A science fiction writer.

Last vacation: I just got married in December, so my wife and I went on our honeymoon in January. We went to Australia, New Zealand, and stopped off in Bora Bora on the way back home.


Annapolis, MD
Franklin Square, NY

"I don't have an office; my office is my restaurants."

MANAGEMENT

Business philosophy: Our business philosophy is to constantly grow through a healthy combination of good operations and strong development, and to have a succession plan in place to give people growth opportunities.

Management method or style: Hands-on.

How do others describe you? I am a good coach. I like to facilitate and empower people. I like to make people smarter and give them the knowledge to grow.

How I give my team room to innovate and experiment: Being part of a large restaurant organization gives us the luxury to innovate and experiment. I am all about innovation and testing things. Each district management team has five to seven restaurants under their belt, and if someone has a good idea I let them roll with it. There have been a lot of ideas that have come from one or two of our restaurants that we have incorporated company-wide.

How close are you to operations? I don't have an office; my office is my restaurants.

What are the two most important things you rely on from your franchisor? We really look for trust and guidance on growth and development from our franchisors.

What I need from vendors: Economies of scale. I look to my vendors to understand what we hope to accomplish and to understand our growth model. We are looking for the highest quality of vendors and the highest quality of services.

Have you changed your marketing strategy in response to the economy? How? There has been a big shift in the economy over the last five years. We have gone through waves and work closely with our marketing department. On the Corner Bakery side we are going to do a lot of hands-on local marketing. It is very important to shift your marketing strategy and understanding—that shift is your bread and butter. In the QSR business you have to have a healthy balance between premium and value. Value is what is going to drive traffic into your restaurant, but to gain you have to focus on your food.

How is social media affecting your business? Digital and social networking has been so successful for Taco Bell. They have pioneered this to leverage their business more than any other brand out there, in my personal opinion.

Ho do you hire and fire? We use a broad approach to hiring. We do a lot of our hiring in restaurants. I'm not currently using an online model for hiring because we believe in face-to-face, in meeting somebody and speaking to them. This is very important on the crew level. I use a recruiting company called PeopleScout to help find above-restaurant management talent, and we don't limit ourselves geographically. We buy 7 to 10 Burger Kings per year. We aren't like a lot of organizations; we don't clean house or start over. We retain and hire everybody the previous organization employed; we give everybody a chance. The ones who don't stick around are the ones who don't embrace change.

How do you train and retain? Training and retention go hand in hand. The people we hire are looking for growth opportunities. We offer management classes and train people even if there are not positions available. We have a deep bench because turnover is part of our industry.

Fastest way into my doghouse: Lack of responsiveness. I am looking for people who are engaged and who want to interact. The fastest way into my doghouse is to not embrace change.

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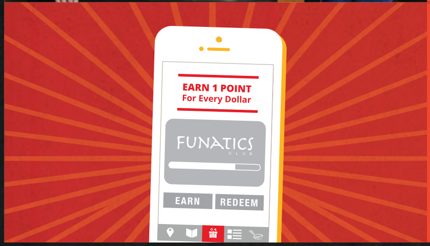

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At age 30, Ghai may only have five years under his belt as a franchisee, but the hands-on operator is a veteran of the restaurant industry. His father became a Burger King franchisee in 1999, just four years after immigrating with his family to the United States from India. Ghai manned the counter of his father's restaurant before he could drive and worked his way through San Jose State University as a restaurant manager. In 2007, the college graduate honed his skills as a district manager, operating five Burger King restaurants.

These days, Ghai oversees operations of the company, which made its mark by buying and successfully reimaging the Burger King brand and, more recently, constructing and acquiring high-quality Taco Bell sites. The company also owns a portfolio of gas and convenience stores that are co-branded with their restaurants.

> "This is a family business, and it is a large family business at that. We are food people in the food industry."

This "power pumper" segment of the company, operated by a business partner, offers a triple-branded experience that is a "machine of business," he says.

Looking ahead, Ghai is focused on expanding the Taco Bell and Burger King brands and solidifying the company's future in the fast casual business. With fewer than 200 Corner Bakery Cafes nationwide, the brand has plenty of "white space" that Ghai views as growth opportunities. "A lot of people in this business don't understand that growth requires change," he says. "Organizational change is really what has helped us get to the level we are today."

Along with his father and mother, Ghai's new wife Gurbir and many extended family members work for Ghai Management Services. The family's strong ties have created a solid foundation to build a business that's in it for the long haul.

"We are not a private equity group or backed by a bunch of investors," says Ghai. "This is our hard-earned money that we are investing into our own business. This is a family business, and it is a large family business at that. We are food people in the food industry."

BOTTOM LINE

Annual revenue: $70 million.

2015 goals: $81 million.

Growth meter: How do you measure your growth? We review our growth on an annual basis. We consider four issues: 1) how we did with new acquisitions and development; 2) reimaging or the status of our restaurants' image—we want to be more than 50 percent reimaged at any given time as a brand; 3) same-store sales growth; and 4) P&L across the board.

Vision meter: Where do you want to be in 5 years? 100 restaurants, heavily developed in Corner Bakery, acquiring more Taco Bell restaurants, and building and acquiring more Burger King units. **10 years?** 150 to 200 restaurants.

Are you experiencing economic growth in your markets? Absolutely. 2014 was a great year economically for our brands. We experienced growth on every level.

How do changes in the economy affect the way you do business? If the economy is scaling back we get in there ourselves and help our restaurants adjust. If sales are negative that means we need to change economically. When the economy is not doing well we have been able to grow by acquiring real estate and businesses at a lower cost. And at some point food inflation is also a big part of our industry. Beef is a big part of Taco Bell and Burger King, and the rising cost of beef has made it difficult for us to make money year over year. Just as with sales, you have to adjust. We use that to our advantage by growing our scale. The best way to counteract a shrinking economy or lower profitability is to increase our scale. We have leveraged that to our advantage over the last couple of years.

How do you forecast for your business? We usually rely on our brand to provide sales growth information and use commodity outlooks and economic outlooks from our lenders to give us insight on how the economic environment is going to change.

What are the best sources for capital expansion? We have a lot of really good lenders on our side. We work closely with GE Capital, Franchise Finance and we also recently started working with City National Bank. We work with a lot of small local banks looking to invest in the restaurant business. We also leverage a lot of government programs as well. The EB-5 Immigrant Investor program allows people from countries like India, China, and Brazil to obtain permanent resident status by creating jobs here. It is a great program where someone lends you money for a 5-year period and you pay them back and create jobs.

Experience with private equity, local banks, national banks, other institutions? See above. There are a lot of sources of capital out there. It is all of our skin in the game. We don't have a private equity group backing us, it is all of our hard-earned money. If a lender is approving us, they are approving us personally.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? We feel that it is a product of economic change. I'm not saying we should go out and raise minimum wage drastically. It is true that California has a cost of living that is higher than the rest of the country and parts of the Bay Area are difficult to do business in, but the consumer has to understand that these are costs that are going to be passed on to them as well. We don't feel that Obamacare may be the best plan for healthcare, but as a company we believe healthcare is something to which everyone is entitled. We are working around it. We evaluate every situation differently and accept that profitability may go down on a certain level and require us to scale up as an organization. There are ways to deal with it, other than to just raise prices.

How do you reward/recognize top-performing employees? The best way to recognize people is to monetize a reward. We offer bonus programs, based on operations metrics. We give out awards at a ceremony once a year to our top performers. Recognition is a big part of our organization.

What kind of exit strategy do you have in place? We don't have an exit strategy. We aren't looking to sell our restaurants in the next 5 to 10 years—I am looking to do this long term. All the decisions we make are based on wanting longevity.

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BY KERRY PIPES

Massages, Joints, Tans, and Lashes

"Significant growth is imminent"

Randy Merrill feels good about the health, wellness, and fitness space he operates in. He says the business models work for him, the client base works for him, and the ROI works for him. It's tough to beat that combination.

When we last visited with Merrill (Q2 2011), he was busy operating a single Massage Heights spa and 14 Solar Dimensions Tanning salons (non-franchised) with his partner, Alex Royter. He also had one Cartridge World store, which he sold because, he says, "It was a lot of work and the mar-

NAME: Randy G. Merrill

TITLE: President

COMPANY: Merrill Co.

NO. OF UNITS: My companies: 2 Massage Heights, 4 The Joint, 4 Solar Dimensions Tanning (non-franchised), and a new concept coming this summer, Amazing Lash Studio.

AGE: 53

FAMILY: My wife Mary is an executive at The Coca-Cola Company; our oldest son Cole T. is 9, and our youngest Jett is 4.

YEARS IN FRANCHISING: I've been involved in franchising all my adult life—in fact, for more than 40 years starting with my first job at my dad's United Rentall.

YEARS IN CURRENT POSITION: For the past 25 years I've been involved in establishing and operating my own units in a variety of both franchised and independent businesses.


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gins were just too small." Meanwhile, he's opened a second Massage Heights and has added four The Joint chiropractic clinics—all since 2014. An Atlanta native, he has kept his operations close to home, all in the Greater Atlanta area. The Solar Dimensions Tanning salons he operates with Royter have grown to 19 locations between them, with 4 exclusively under Merrill's control.

Merrill, who spent his early years in the military and as an athlete, is now 53 and says he may just be on the cusp of some substantial growth. "I'm at a place where my experience, expertise, and money are all coming together at this stage in my life. I have a feeling significant growth is imminent," he says. "All of the brands I'm in right now are a perfect match for my operating style. They are clean, efficient, streamlined models that are membership-driven and simpler to succeed with, as compared to a food franchise," he says.

Even with his recent expansion, Merrill is not content to sit still. "I've just signed a deal to open four Amazing Lash Studio units in 2015," he says. "These should be a perfect complement to the brands I already have." He hopes to have the first two open in June and the next two in October.

Merrill also has taken on a new role, working closely with his franchisors to assist new franchisees of Massage Heights and The Joint. "I've been working as a kind of business consultant with both brands. So when someone new comes into the system I can come alongside them and help them, from the build-out process all the way through to the grand opening," he says. The corporate offices love the kind of support and dedication successful franchisees like Merrill bring to the mix.

On the personal front, Merrill and his wife, Mary, an executive with Coca-Cola, have two boys, 9 and 4, and he says he is enjoying the domestic side of life more than ever. "That's one of the reasons I like keeping my businesses in my own backyard."

Merrill recalls growing up working in his father's United Rentall business (he was just 8 years old when he started) and how that experience helped propel him out on his own. For more than 25 years now, he has established and operated his own businesses, both franchised and non-franchised, and is, perhaps, most proud of the fact he has been able to have a healthy work-life balance that has allowed him to enjoy his family and a successful career. MUF

PERSONAL

First job: I started out helping my dad in his United Rentall store at the age of 8.

Formative influences/events: Obviously my dad, along with my mother, were key influencers in my early stage, and their influence continues to this day. They were hard-working and dedicated and insisted that I be the same. In the ensuing years, I have also had the support and partnership of my brothers, who are big parts of my life. Along the way, of course, all my experiences, the good *and* the bad, have helped shape me.

Key accomplishments: I am most proud of being able to be successful in business and in life, maintaining a work-life balance that lets me enjoy my family and still operate commercial entities at the highest levels.

Biggest current challenge: My current challenge/goal is to elevate the level of operation and perception of The Joint in the public's view. It's a powerful concept that I believe can really take off if executed properly.

Next big goal: We are planning to debut a multi-unit operation of Amazing Lash Studio in Atlanta this summer.

First turning point in your career: I started a tanning salon in my early years and will always remember how much my friends and family supported me. It made me realize that the character of the operator has a big influence on the operation and on the willingness of people to help. I'll never forget what that meant to my first business and to all my subsequent businesses.

Best business decision: When I started really listening to my wife's business counsel. She's my best partner in life *and* in business. She has great insight into both business and people.

Hardest lesson learned: Early on I trusted some people I shouldn't have, taking them at their word and expecting them to live up to their commitments, which they did not do. It was an important lesson that will stay with me forever.

Work week: The nice thing about our operation is that while I'm always "on," I have flexibility in my work hours and great people in my operation.

Exercise/workout: I exercise every day. It helps keep me mentally sharp as well as in shape.

Best advice you ever got: The basics of "Please" and "Thank you" still count for a lot, but my guiding principle is "Never give up."

What's your passion in business? Touching people's lives in a meaningful way, both staff and clients—people who are involved and committed to their organization, and who know they have the owner's support do a better job with customers.

How do you balance life and work? I have been fortunate enough to find people who agree with my outlook and operate at high levels to be part of my team. That allows me the time I need to be an involved husband and active in my kids' lives every day.

Guilty pleasure: I've given up most of those!

Favorite book: Malcolm Gladwell has a unique way of looking at things that we can all learn from. All of his books are favorites of mine.

Favorite movie: "Guardians of the Galaxy." Haven't seen it? Watch it. Seriously. Great movie.

What do most people not know about you? I'm so transparent with my friends and associates that I doubt there is anything they don't know about me!

Pet peeve: Excuses. 'Nuf said, I'm sure.

What did you want to be when you grew up? A major league athlete, but not just in one sport. I wanted to be a pro in every sport and every season!

Last vacation: Disney World with the family.

Person I'd most like to have lunch with: Jesus. How could you not want to ask Him a few questions?!


BUSINESS BETTER BUILT

MANAGEMENT

Business philosophy: All I need from my associates is a good attitude and a belief in accountability—that and performance!

Management method or style: I support all of my associates, provide guidance, and remind them of what our long-term goals are when we are faced with short-term situations. Sometimes those on the front line can have their perspective skewed. A reminder of the view from 30,000 feet can be helpful.

Greatest challenge: I find it hard to be patient sometimes. To me the vision is clear.

How do others describe you? I think most of them would say I'm smart, but I'm hoping they would say I'm humble too, as I always appreciate the fact that my personal success is the result of a team operation.

One thing I'm looking to do better: I always strive to improve how I train leaders in my organization.

How I give my team room to innovate and experiment: I'm always willing to take a shot on a well-thought-out strategy. If it works, we see if we can replicate it. If not, we try something else. I am fine with delegating the authority that goes with the responsibility as long as we continually assess the results. From that review point, we can modify what we do next.

How close are you to operations? I oversee through daily numbers, every day, every time. I'm never far from my phone or computer.

What are the two most important things you rely on from your franchisor? A legitimate national plan and ongoing support. Some are better at this than others.

What I need from vendors: Products and services that are timely and effective, and No Excuses!

Have you changed your marketing strategy in response to the economy? How? Yes. We are much more controlled and precise in our marketing than we used to be. The old days of throwing a lot of stuff against the wall are gone.

How is social media affecting your business? It's critical. We use it in all our operations extensively.

How do you hire and fire? I like to hire attitude and aptitude. Skills can be taught. Firing? Reluctantly and with compassion.

How do you train and retain? We start by making sure they understand the long-term mission. Then we continue to educate, hold them responsible, and reward them.

How do you deal with problem employees? Write 'em up and ride 'em out. While we give them opportunity at every stage to improve, sometimes the job we have them in is just not the right slot and we have to let them go.

Fastest way into my doghouse: Lie to me. That will do it every time.

> "I have been fortunate enough to find people who agree with my outlook and operate at high levels to be part of my team."

BOTTOM LINE

Annual revenue: $4 million.

2015 goals: Open three Amazing Lash Studios.

Growth meter: How do you measure your growth? By net members and net dollars.

Vision meter: Where do you want to be in 5 years? 10 years? I plan to keep rocking and rolling for 5 years and hope to be relaxing in 10!

How is the economy in your region affecting you, your employees, your customers? The economy comes and goes, but our operations are solid and hanging in there.

Are you experiencing economic growth in your market? Yes, we are. I give a lot of that credit to our concepts and our teams.

How do changes in the economy affect the way you do business? More money in consumers' pockets is good for us.

How do you forecast for your business? We always forecast growth and plan percentage increases. We don't want concepts that don't have a strong growth element to them.

What are the best sources for capital expansion? We self-fund and we have a good relationship with our bank.

Experience with private equity, local banks, national banks, other institutions? Why/why not? Our relationship with SunTrust is awesome, others not so much. We keep them in the loop and involve them frequently in our plans.

What are you doing to take care of your employees? We pay top dollar and provide a great work environment, training, and support.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? We just have to keep growing and making more money to buy best-in-class performance.

How do you reward/recognize top-performing employees? Well, money is always popular, but we also provide opportunities for personal growth and recognition among peers.

What kind of exit strategy do you have in place? My plan is to build 'em and sell 'em! We always plan our operations around setting them up right and running them right. That makes them attractive to people who would rather step into established businesses.


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William Bruce does well by doing good

You can say this about William Bruce: he's not afraid of change or embracing new challenges. He's proven both since we profiled him in 2012 and named him our MVP Noble Cause Award winner in 2013.

In early 2014, he left Abundant Brands, where he had spent a half-dozen years, and as COO was overseeing more than 250 Subway locations and more than a dozen Costa Vida Mexican Grill restaurants, as well as three other brands.

"I felt like rather than just maintaining what the company had, that I'd like to really get back to a more active building and developing approach," he says. That's when serendipity struck. His name had been floated to some executives with a Dallas-based commercial real estate company, Encore Enterprises. The $2 billion company had a restaurant arm, Encore

NAME: William Ray Bruce

TITLE: President, Encore Restaurants

COMPANY: Encore Enterprises

NO. OF UNITS: 8 Five Guys Burger and Fries, 45 in development; 2 IHOPs, 2 more under construction

AGE: 52

FAMILY: Beautiful wife Tali, and 5 children: Kelby, 21, at Utah State, on scholarship in physics; Austin, 21, a Mormon missionary in South Korea; Kenzie, 19, at Utah State, pre-med; Baron, 19, at Weber State on football scholarship; Kaisen, 15, at an early college high school.

YEARS IN FRANCHISING: 20

YEARS IN CURRENT POSITION: 1

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Restaurants, and approached Bruce about doing some consulting for them.

"In the spring of 2014 they came to me and said, 'We have one IHOP in Mississippi and want to know if we could expand that brand and maybe others.'" Bruce says. "I went down to check it out and I told them I thought it was doable." He also discovered an opportunity to get Encore into Five Guys Burgers and Fries. In May 2014 Encore hired him as president of its restaurant development division. The deals have been fast and furious ever since.

The first order of business was the buyout of eight Five Guys franchised locations in California from a group that had held that territory for four years. Bruce proved he still had a knack for turning things around: in 45 days, profitability at those units increased 8 percent and has remained there.

> **Doing good is just one of the things that will always characterize William Ray Bruce.**

There are 45 more Five Guys units in the works, with 5 already in development and 21 additional sites under negotiation. "We plan to open 12 to 15 Five Guys per year," he says. IHOP growth also remains on his radar. Encore has two IHOPs open in Mississippi and two more under development.

With franchise locations and territories spread from California to Mississippi, Bruce, who lives in Salt Lake City, says he is doing a lot more traveling these days. The timing is favorable: with all but one of his children now grown and out of the house, he and his wife Tali have a much more flexible schedule than just a few years ago. "Encore Enterprises is based in Dallas and I find myself in the offices there quite a bit, too," he says. "But it all works."

Almost a year into his new position, Bruce is pleased with his move and believes he was in the right place at the right time when Encore came calling. "I see nothing but substantial growth ahead for us with buying existing and building new Five Guys locations," he says.

As some readers may recall, Bruce had a well-earned reputation for "doing good" with his Utah restaurants, developing a unique program at Abundant Brands to use leftover food to feed the area's needy and hungry—hot, open-faced sandwiches from Subway and seven-layer burritos from Costa Vida Mexican Grill. He says Abundant has continued carrying on the tradition he began, and he hopes to have a similar program at some of his Five Guys locations in California very soon.

Some things don't need to be changed, and doing good is just one of the things that will always characterize William Ray Bruce.

PERSONAL

First job: Captain Lou's Italian Galley on the beach, slicing onions with swim goggles on so my eyes wouldn't tear. This was my job before making all those beach pizzas.

Influences/events: Vern O. Curtis, 1981 Denny's CEO, lived in my Huntington Beach, Calif., neighborhood and had great stories about restaurants. Cami Adamson of Subway, Utah, who was able to balance high-need kids, family, and Facebook every day, while managing the many aspects of an area manager. These folks, and many like them, have influenced me over the years.

Key accomplishments: Operating multiple brands, building/designing central kitchens and production models; feeding the homeless weekly with restaurant leftovers in the local communities; and getting new knees and hips and popping right back. Health has its benefits.

Biggest current challenge: Rapidly building the Five Guys brand in California with financial modeling for each location and analyzing locations for success.

Next big goal: Opening new restaurants monthly.

First turning point in your career: While meeting with R. Gregory Keller, president of Souplantation/Sweet Tomatoes during a personal life challenge, he said, "Pick up the pieces or your career will suffer." I picked them up that day.

Best business decision: I supported a subordinate when I believed he did the right thing. I was let go from that position for not terminating the subordinate. To this day, I still believe that decision was the right one. My leadership grew through standing for someone else.

Hardest lesson learned: I was young and left a job for greener pastures. I found out there are weeds in every pasture. I learned to see the long-term harvest.

Work week: Today it is up-front work that will pay off in operational dividends later.

Exercise/workout: I simply lift weights—building muscle to reap the rewards of eating good restaurant food.

Best advice you ever got: My wife sent me a Tony Robbins CD back in the dating days when I was living in another state. Tony said, "To magnify the human experience you need partnership." We were married shortly after. It has made my life, including business life, better.

What's your passion in business? Motivating others to reach higher in restaurants. I cannot get enough of this.

How do you balance life and work? Balance is more challenging today with older kids and a great vocation. My planner schedules good plans. I execute my plans.

Guilty pleasure: I have no guilt for this: I love alone time with my wife; and enjoying cheesy movies and Papa John's at home.

Favorite book: *Guinness World Records.* Each year I am more amazed at what humankind can achieve.

Favorite movie: "Amadeus."

What do most people not know about you? I am happy.

Pet peeve: Humidity. If I am going to be wet, I'd rather be in water.

What did you want to be when you grew up? A surfer. I am still surfing.

Last vacation: Snowbird. Snowboarding and spa. Magical.

Person I'd most like to have lunch with: Oprah. She would have a potpourri of answers to various life, business, and cultural questions.


golden corral
Buffet & Grill


DEL TACO


corner bakery cafe
corner bakery cafe

MANAGEMENT

Business philosophy: There are many who are brighter and more talented than I am. Surround yourself with these folks and you are challenged each day.

Management method or style: Motivate. However, if the dishes need washing, throw a trash bag over your head, pop out your arms, and start washing. Example goes a long way.

Greatest challenge: I try my hardest to be open to all possibilities, not just my own. Options are always better than my answers alone in tough moments.

How do others describe you? Funny and witty.

One thing I'm looking to do better: Encore has given me many avenues to expand. I want to successfully expand my company's horizon in restaurants.

How I give my team room to innovate and experiment: Ask questions. What is a better way of doing this? I believe leaders and subordinates innovate by listening to each other and making better collaborative decisions.

How close are you to operations? I always have my hands, toes, and self in operations. Having folks who can perform amazingly keeps me tutored daily.

What are the two most important things you rely on from your franchisor? Being their word and standing by their commitments. If you want my company to deliver results, then please deliver on your commitments. I feel franchisees really try to deliver on QSC in restaurants to deliver a profit. At the franchisor level, you are trying to deliver on your word. We feel really comfortable when franchisors deliver. You hunger to grow their brand.

What I need from vendors: I have always believed it is communication. If they know there is a production problem, open up the lines of communication and find a solution.

Have you changed your marketing strategy in response to the economy? This is a moving target. Technology really develops new ideas and ways to announce new messages in our recovering economy. It takes talented people to see underlying tactics to bring in new and repeat guests with fewer spending dollars.

How is social media affecting your business? Positively. Doesn't it feel great to know everyone can speak their experience good or bad? I do not dwell on the bad; we improve it. When we know something works, we tweak it and make it better. Feedback is the ultimate for getting a healthier business.

How do you hire and fire? I believe this is a vibration we live. We hire people who are like us in our company culture. I feel people fire themselves by not producing results, not changing, not following policies. They vibrate out.

How do you train and retain? This is the most valuable tool. When we place so much attention on interviewing and finding the right people, training them to succeed is paramount. I feel that when people have the right tools in their belt, they stay in their positions until they get promoted. They are happy when they know how to do their job.

How do you deal with problem employees? Swiftly. However, I think an employee knows when it is time to go. Please vibrate yourself to a new vocation if you're not happy.

Fastest way into my doghouse: Not being your word.

BOTTOM LINE

Annual revenue: $12 million.

2015 goals: Build 15 more locations and double revenue.

Growth meter: Crew and guest satisfaction. The guest is important, but our team is central to our company triumphs. Grow both of these parties and we are in the green.

How do you measure your growth? Culture being lived, revenue, and profitability.

Vision meter: Associate crew members today are running the company tomorrow.

Where do you want to be in 5 years? At the head of my presidential class running multiple brands. **10 years?** Developing my replacement to run things better.

Are you experiencing economic growth in your market? Homes have been on the upward trend. More people are eating fast casual than ever before, and they're spending more. Thank you, America.

How do you forecast for your business? I always use historical data from our units, but technology and upcoming data companies have helped. Data companies track Visa and MasterCard, guest spending habits, what ZIP Code they are coming from, and they predict sales at various restaurants and retail centers. Technology is moving fast and the information is there for study.

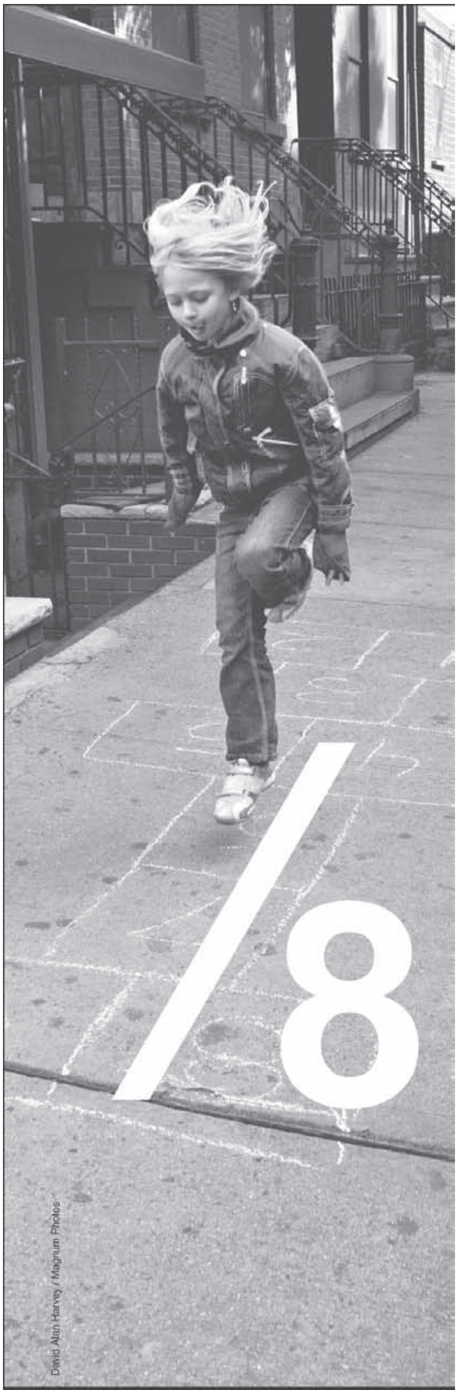
What are the best sources for capital expansion? Encore uses EB-5. We also use high net worth individuals as a key for growth. We have 18 offices nationwide raising money through the government EB-5 program. This capital tool is a great instrument in our arsenal. Raising money and building in TEA [Targeted Employment Area] markets, and helping the economy grow is significant to our model. President Clinton instituted this program, and over the past few years it has really been refined. Encore uses this to help our development while building and guaranteeing jobs for Americans in the marketplace.

Experience with private equity, local banks, national banks, other institutions? Encore has masterminds at the helm. These financial wizards are always establishing ways for banks and institutions to invest in our evolution. Since Encore has been established, we rally in the fact that all investors have experienced increases. This speaks for itself.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? As a collective management team, Encore uses every possible research and technology tool as support. Finding the right relationship with internal team, vendors, and other groups helps in finding answers to costs.

How do you reward/recognize top-performing employees? At our last Christmas party, Dr. Sangani [Encore's chairman and founder] and Patrick Barber [president and CEO] recognized top performers and others for their commitment to our company culture and for exceeding goals. Understandably, this filters down to all sectors in our company: restaurants, multi-family, commercial, and the other departments. This culture of excellence and rewarding top people in the organization makes for healthy competition and distinction. Before the meeting started, our hospitality president was worried his sector did not win by a few dollars. That worry is good; it transitions into an environment of winning.

What kind of exit strategy do you have in place? We are not attached, meaning an exit strategy is important. I was coached not to get attached to investments. Why? If the right time comes to sell, and the right buyer comes in to purchase, then sell your business at a high return. The financial rewards can be larger if you understand that profits can be made. This does not mean sell and be done. It means to me, take these dollars and find another franchise who may be in trouble, turn it around, and start the process over again. Possibilities and options are thoughts for progression. I believe it is in our human nature to progress.



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David Alan Harvey / Magnum Photos

2015 MULTI-UNIT FRANCHISING CONFERENCE

Shaping the FUTURE

APRIL 8-10
CAESARS PALACE, LAS VEGAS

2015 KEYNOTE SPEAKERS

The acclaimed subject of the book, movie and Broadway play ***Catch Me If You Can,*** **Frank Abagnale,** and **New York Times Best-Selling Author,** Futurist & Founder of the XPrize Foundation, **Peter Diamandis.**

Frank Abagnale

Peter Diamandis

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Franchise Update MEDIA

2015 MULTI-UNIT FRANCHISING CONFERENCE

Shaping the FUTURE

Robert Branca

Chairman MUFC 2015;
President, Branded Management Group /
President, Branded Realty Group

Hello Fellow Franchisees, Franchisors and Vendors,

I would like to invite you to join me and many of the nation's top leading franchisees, to the 15th Annual Multi-Unit Franchising Conference scheduled on April 8th-10th in bustling Las Vegas. This is a must-attend event for anyone serious about franchising, interested in doing business with, or learning from the most successful franchisees, franchisors and their supplier partners or investing in their success. This is a "who's who" of franchising. It is where franchisees looking to grow by adding brands, units or territories go to network and look for the chance to finance their latest enterprises.

The Multi-Unit Franchising Conference is designed to be an excellent educational and inspirational resource, providing panels of experts discussing current topics directly geared towards those invested in franchising. Whether you have a conversation with a mega-franchisee doing business in multiple states, or are inspired by the experienced roster of speakers, you will come away armed to better your own businesses.

The people who attend The Multi-Unit Franchising Conference tend to do so regularly. These are the thought and action leaders in franchising who return time and time again, year after year for a reason: they know that this conference is the ideal platform for attendees to network, share and learn; it's where franchisees continue their education and equip themselves for the next step in their franchising journey.

Need another reason to attend? How about this: deals get done here. Franchisors and the most credit worthy, successful franchisees know the Multi-Unit Franchising Conference is where they'll find capital, recruit talent and discover new products and technology.

Given recent highly publicized events, perhaps the most discussed aspect of the 2015 Conference involves planning to navigate the coming headwinds facing our businesses. Whether in the labor, regulatory or operational spheres, becoming informed and developing a strategy are more critical than ever. These are unprecedented times, and the best place to prepare yourself is by being among the best in franchising.

Best Regards,

WHY YOU SHOULD ATTEND

The Multi-Unit Franchising Conference brings successful Multi-Unit Franchisees together for a two and a half day event that combines exciting content & curriculum, an exhibit hall full of new opportunities, and plenty of networking. This conference provides an experience you can't find anywhere else!

1 Dynamic Agenda

We provide content-rich learning geared to help multi-unit franchisees grow and be inspired. Our curriculum extends beyond what franchisees learn at their individual brand conferences. Don't miss our inspiring keynote speakers. This is the only event of its kind that focuses on the critical concerns of today's franchisees.

2 Developed by and for Multi-Unit Franchisees

This is a unique event because it is highly influenced by its advisory board consisting of the very best multi-unit franchisees. The board works diligently to ensure that the conference delivers on its promise of being the best platform for franchisees to learn how to improve unit performance and grow their businesses.

3 Franchisee-Only Events

Franchisees appreciate the opportunity to network with their peers and have asked for even more networking sessions. The 2015 conference introduces a new networking session — Meet the Speakers Roundtables, where you can talk with fellow franchisees. Our franchisee speakers will lead the roundtable discussions that cover a variety of topics important to multi-unit franchisees today.

4 Exhibit Hall

More than 70% of franchisees previously attending tell us they are looking for new opportunities. Visit with more than 230 sponsors and exhibitors representing franchise brands and product and service providers. If you are looking for a new franchise opportunity or vendor partner, this is the place to be. Three sessions are held in the exhibit hall, providing plenty of time to visit every booth.

5 Speaker Roster

Our franchisee speaker roster includes some of the best, brightest and most experienced franchisees in the industry. These talented individuals representing all aspects of the franchise industry share their experiences to help you learn and grow your business.

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Franchise Update MEDIA

KEYNOTE
SPEAKERS

Dr. Peter Diamandis
New York Times Best-Selling Author, Innovator and Founder of the XPRIZE

Peter Diamandis is the world's foremost expert and futuristic leader in incentivized innovation: the art of incentivizing smart and talented people within your company or those experts around the world to focus on solving your grand challenges. He has worked with Fortune 100 companies, government leaders, and captains of industry over the past 15 years. In 2010 Diamandis was the winner of The Economist's "No Boundaries" award for "meta-innovation — driving innovation in the way people innovate." He is also the winner of the Arthur C. Clarke Award for Innovation, the Heinlein Award, the Lindbergh Award, the Wired RAVE Award, the Neil Armstrong Award, and the World Technology Award.

Dr. Diamandis is the Founder, Chairman and CEO of the X PRIZE Foundation, a non-profit focused on designing and launching large incentive prizes to drive radical breakthroughs for the benefit of humanity. Best known for the $10 million Ansari XPRIZE for private spaceflight, the Foundation has awarded prizes in Exploration, Life Sciences, Energy & Environment, Ocean Health, and Education/Global Development. Dr. Diamandis attended the Massachusetts Institute of Technology (MIT) where he received his undergraduate degree in molecular genetics and graduate degree in aerospace engineering.

After MIT he attended Harvard Medical School where he received his M.D. In 2005 he was also awarded an honorary Doctorate from the International Space University. Diamandis has founded over 15 companies since his first year at MIT. Many of these are non-profits dedicated to creating change in the world. Peter's mission is to guide and inspire the transformation of humanity both on and off the Earth. His personal motto is: "The best way to predict the future is to create it yourself." In 8th grade, while living in New York, Dr. Diamandis won first place in the Estes rocket design contest.

In 2012, Diamandis released the best-seller *Abundance: The Future Is Better Than You Think*, debuting at number one on the Amazon and Barnes and Noble best-sellers lists. The book focuses on how exponential technologies, coupled with the DIY movement and the on-line connectivity of the "rising billion," will enable an age of global abundance providing water, energy, food, shelter, education and healthcare in unprecedented availability for humanity.

Frank Abagnale
Acclaimed Subject of the Book, Movie and Broadway Play *Catch Me If You Can*

Frank W. Abagnale is one of the world's most respected authorities on forgery, embezzlement, and secure documents. For over 36 years he has worked with, advised, and consulted with hundreds of financial institutions, corporations, and government agencies around the world.

Mr. Abagnale's rare blend of knowledge and expertise began more than 40 years ago, when he was known as one of the world's most famous con men. This was depicted most graphically in his best-selling book, *Catch Me If You Can*, a film of which was also made, directed by Steven Spielberg with Leonardo DiCaprio and Tom Hanks. The Tony-Award winning musical *Catch Me if You Can*, directed by multiple award winner Jack O' Brien, opened on Broadway at the Neil Simon Theatre in April 2011.

Between the ages of 16 and 21, he successfully posed as an airline pilot, an attorney, a college professor, and a pediatrician, in addition to cashing $2.5 million in fraudulent checks in every state and 26 foreign countries. Apprehended by the French police when he was 21 years old, he served time in the French, Swedish, and US prison systems. After five years he was released on the condition that he would help the federal government, without remuneration, by teaching and assisting federal law enforcement agencies.

Mr. Abagnale has now been associated with the FBI for over 36 years. More than 14,000 financial institutions, corporations, and law enforcement agencies use his fraud prevention programs. In 1998 he was selected as a distinguished member of the "Pinnacle 400" by CNN Financial News – a select group of 400 people chosen on the basis of great accomplishment and success in their fields.

In 2004 Mr. Abagnale was selected as the spokesperson for the National Association of Insurance Commissioners (NAIC) and the National Cyber Security Alliance (NCSA). He has also written numerous articles and books including *The Art of the Steal, The Real U Guide to Identity Theft*, and *Stealing Your Life.*

"Abagnale's lecture may be the best one-man show you will ever see." —Tom Hanks

WHO SHOULD ATTEND

Franchisees

The Multi-Unit Franchising Conference provides content-rich learning opportunities geared towards franchisees. Our curriculum brings something different to the table and extends beyond what franchisees learn at their individual brand conferences. Our sessions and panels are comprised of franchisees positioned within different segments of the franchise industry. We also strive to provide plenty of opportunities for our franchisee participants to network amongst their peers.

Franchisors

The 2014 Multi-Unit Franchising Conference was attended by more than 550 multi-unit franchisees, representing every segment of the franchise industry – food, retail and service. More than 70% of our participants said they were seeking new franchise opportunities. This conference is the perfect venue to effectively display your franchise opportunity to prospective multi-unit franchisees.

The conference programming is developed with the guidance of our Multi-Unit Franchisee Advisory Board. They share their expertise, challenges and experiences with participants. This provides a great opportunity for franchisors to learn (including CEOs, Presidents, Vice Presidents and Directors) in all disciplines in the organization – Sales, Operations, Marketing, Finance and Technology.

Additionally, franchisee attendees admit they find brands with leadership presence at the conference more attractive than those without C-suite representation.

Suppliers

Service providers interested in reaching multi-unit franchisees and franchisors should attend the Multi-Unit Franchising Conference. With more than 550 multi-unit franchisees and 520 franchisor attendees, the conference provides a great opportunity to showcase your services and expertise.

2014 FRANCHISEE ATTENDEE PROFILE:
555 Total
Franchisees attended

20% own between **20-50 units**

10% own **50+ units**

19% own between **5-10 units**

19% own between **2-5 units**

15% own between **10-20 units**

210 FRANCHISOR BRANDS ATTENDED IN 2014

18% Attending brands with COO or VP of Operations representation

30% Attending brands with CEO representation

100% Attending brands with CDO or Senior VPs of Business Expansion

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Franchise Update MEDIA

AGENDA AT A GLANCE

TUESDAY, April 7 | Pre-Conference

11:00AM TO 6:00PM	**Golf Tournament** – Arroyo Golf Club
6:00PM TO 7:30PM	**MULTI-UNIT FRANCHISEE Opening Social *(Franchisees Only)*** – Carmine's Restaurant Sponsored by Camp Bow Wow, Johnny Rockets, McAlister's Deli & Pollo Campero USA

WEDNESDAY, April 8 | Main Conference

7:30AM TO 7:30PM	**Registration Desk Open**
7:30AM TO 8:15AM	**Continental Breakfast**
9:00AM TO 10:30AM	**Opening General Session** **Welcome:** Therese Thilgen, *CEO*, Franchise Update Media, with Robert Branca, *President, Branded Management Group / Branded Realty Group & 2015 Conference Chairman* ***KEYNOTE*** Peter Diamandis, Futurist & Author, *Abundance: The Future Is Better Than You Think*
10:30AM TO 11:00AM	**Coffee Break** Sponsored by CKE Restaurants Holdings, Inc.
11:00AM TO 12:00PM	**General Session:** Financing 2015 – Securing Capital
12:00PM TO 1:30PM	**Franchisee Only Luncheon:** Seating available with franchisees by industry or size of organization Sponsored by Captain D's, Checkers & Rally's Restaurants, Costa Vida Fresh Mexican Grill, Krispy Kreme Doughnuts, Modern Business Associates
12:00PM TO 1:30PM	**Franchisor & Supplier Luncheon** – Build and Evaluate Your Franchisee Recruitment Plan & Budget Sponsored by ApplePie Capital

	Growing to 20 Units	**Growing from 20 to 50 Units**	**Growing Beyond 50 Units**
1:45PM TO 3:00PM	Adequate Financing to Grow	Building Bench Strength to Support Infrastructure	Capital Solutions for $15+ Million Acquisitions and/or Growth
3:15PM TO 4:30PM	The Right Time to Grow Your Infrastructure	Financing Acquisitions & New Growth	Planning Infrastructure to Support Your Next Brand or Acquisition

4:30PM TO 7:00PM	**Opening Social in Expo Hall** – Exhibits Open

AGENDA AT A GLANCE

THURSDAY, April 9 | Main Conference

7:30AM TO 7:30PM	**Registration Desk Open**			
7:30AM TO 8:15AM	**Continental Breakfast**			
8:30AM TO 11:00AM	**General Session** **Opening Remarks** – Robert Branca, *President, Branded Management Group / Branded Realty Group & 2015 Conference Chairman* **Industry Trends** – Darrell Johnson, *CEO, FranData*			
11:00AM TO 11:15AM	***KEYNOTE*** Frank Abagnale, Author, *Catch Me If You Can*			
11:15AM TO 12:15PM	**Break**			
	Concurrent Breakout Sessions			
	Marketing Track Customer Engagement - The Best Marketing Tool	**Operations Track** Evaluating Distressed Units	**Relationships Track** Labor Laws – Impact on Hiring and Retaining Good Talent	**Growth Track** Lease Negotiations & Re-Negotiations
12:15PM TO 1:45PM	**Lunch in Expo Hall** – Exhibits Open			
2:00PM TO 3:00PM	**General Session** – Franchisees & Franchisors Working Together to Build Stronger Brands			
3:15PM TO 4:15PM	**Concurrent Business Sessions**			
	Marketing Track Local Store Marketing for Optimum Brand Awareness	**Operations Track** Take Your Customer Service to the Next Level	**Relationships Track** Franchising Under Attack: How Recent & Proposed Legislation Affects Your Bottom Line	**Growth Track** How to Evaluate a Franchise Brand
4:30PM TO 5:30PM	**Meet the Speakers Roundtables** - Franchisee Only Session			
5:30PM TO 7:00PM	**Cocktail Reception in Expo Hall** - Exhibits Open			

FRIDAY, April 10 | Main Conference

9:00AM TO 10:30AM	**Closing Session** Develop Your Plan for Growth Workshop for Franchisees and Franchisors Infrastructure, Financing Needs Assessment & Plan Development

REGISTER NOW online at: mufranchisee.com/2015 or call 1-800-289-4232 ext 202

Franchise Update MEDIA

Multi-Unit Franchisee 2015 MVP

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

MVP Award winners will receive VIP passes to the 15th Annual Multi-Unit Franchising Conference in Las Vegas, April 8-10, 2015, where they will be treated like franchisee royalty and recognized on stage during the general session. In addition, they will also receive an exclusive profile in Multi-Unit Franchisee Magazine, a feature on mufranchisee.com, and an impressive award to display back in their office.

Nominations are due January 5th, 2015

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

Nominations Categories:

Influencer Award for Former Pro-Athlete

For achieving excellence in franchising, as a former pro-athlete.

Influencer Award for Husband & Wife Team

For demonstrating excellence in the franchising industry as a husband & wife team.

Innovation Award

For bringing a new and unique contribution to their brand.

Veteran Entrepreneurship Award

For outstanding performance, leadership and innovation by a veteran.

Community Involvement Leadership Award

For providing an example for others to follow in franchise success.

Spirit of Franchising Award

For achieving brand leadership with a single brand.

Single Brands Leadership Award

For achieving brand leadership with a single brand.

Multi-Brand Growth Leadership Award

For achieving brand leadership in multi-brand expansion.

Noble Cause Award

For passionate, unwavering support for those in need.

American Dream Award

For achieving remarkable success in his new country.

All nominations are strictly confidential.

Questions? Contact Christa Pulling christap@franchiseupdatemedia.com

2015 MULTI-UNIT FRANCHISING CONFERENCE

Shaping the FUTURE

FRANCHISEE **ONLY** EVENTS

We've heard your requests and based on your feedback, we are offering one more franchisee only event this year – Meet the Speakers Roundtables. These events are designed to encourage networking amongst your peers in a relaxed environment.

Multi-Unit Franchisee Opening Social - Tuesday, April 7th

Grab a cocktail and mingle with your multi-unit franchising peers. This year's chair Robert Branca, Multi-Unit Franchisee of Dunkin' Donuts, along with our advisory board of multi-unit franchisees invite attending franchisees to join them for an evening of peer-to-peer networking and cocktails. This exclusive franchisee social event is the perfect way to jumpstart your conference experience at the lovely Carmine's Restaurant, located in the Caesars Palace Forum shops.

Networking Luncheon - Wednesday, April 8th

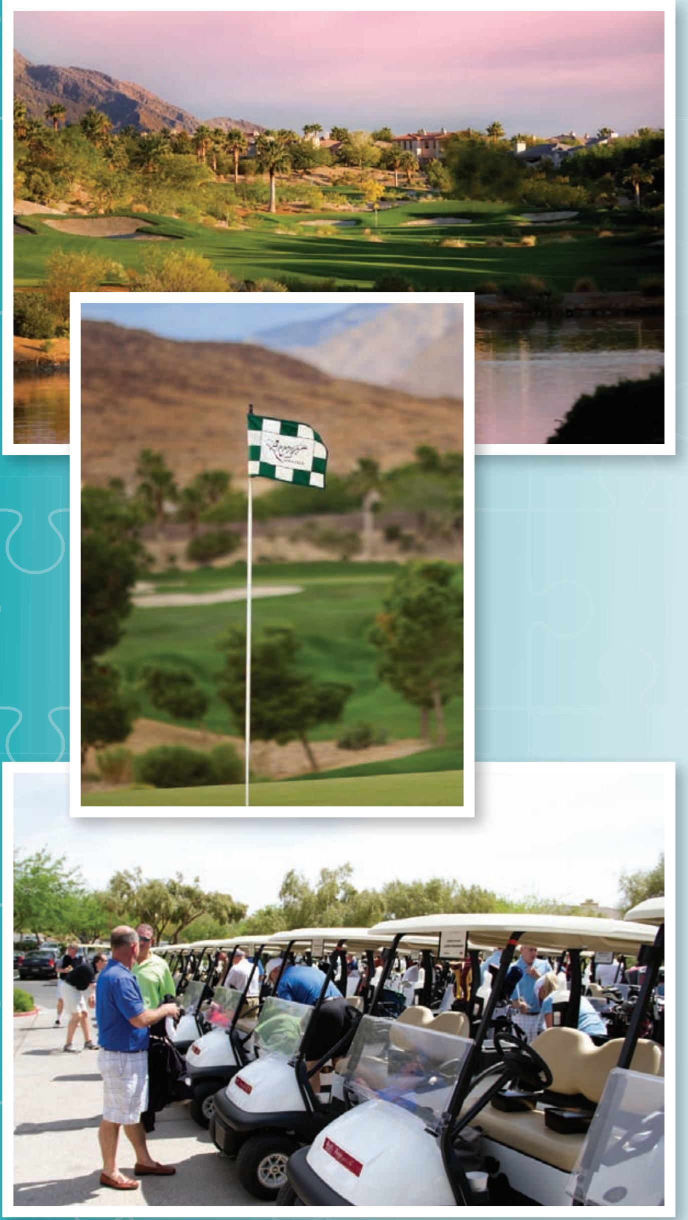
Network and share ideas with other multi-unit franchisees during our franchisee only luncheon. Where else can you engage with franchisees from a variety of industries? Discover new ideas and best practices and develop relationships with business owners facing the same challenges. Seating will be open or available by industry. Details available when you register.

Meet the Speakers Roundtables - Thursday, April 9th

The 2015 Multi-Unit Franchising Conference introduces this new networking session – Meet the Speakers Roundtables where you can talk with fellow franchisees. Our franchisee speakers will lead the roundtable discussions that cover a variety of topics important to multi-unit franchisees today.

2015 MULTI-UNIT FRANCHISING CONFERENCE

PRE-CONFERENCE GOLF TOURNAMENT | LAS VEGAS



Join your franchise colleagues at the 2015 Multi-Unit Franchising Conference Golf Tournament. The tournament is a premier networking event and a casual forum to strengthen existing relationships and build new ones with industry decision makers. All players must be registered for the Multi-Unit Franchising Conference in order to participate in the golf event.

Each player receives: cart, box lunch, two drink tickets, postgame awards reception, and transportation to and from Caesars Palace. All Golf fees are additional fees beyond the conference registration rates.

Registration: Please contact Gary Gardner garyg@franchiseupdatemedia.com or 800-289-4232 ext. 201.

Tuesday April 7th, 2015
Shotgun Start at
Golf Fee: $195.00
Club Rental Fee: $50.00

Reservation Deadline: April 1st, 2015

Questions?
Please email us for more information

Interested in sponsoring?
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2015 MULTI-UNIT FRANCHISING CONFERENCE Shaping the FUTURE

CAESARS PALACE®
LAS VEGAS

The Multi-Unit Franchising Conference returns to the beautiful Caesars Palace hotel. We hope you enjoy your stay.

The grandest of Las Vegas hotels, Caesars Palace is famous worldwide for its magnificent beauty and impeccable service. This majestic Las Vegas hotel offers a 129,000 square foot casino, 26 restaurants and cafes, sprawling gardens and pools, a world-class spa, and the renowned Coliseum spotlighting world-class stars.

Room Block Expires March 16, 2015

Roman Tower Guest Rooms $189 single/double
These guest rooms are located in the heart of the property and just a walk through the casino to the Multi-Unit Franchising Conference space. The Roman Tower guest rooms are standard in size, with classic room décor.

Palace Tower Guest Rooms $189 single/double
These guest rooms are situated directly above the conference space with direct access via elevator to the Multi-Unit Franchising Conference space. The Palace Tower guest rooms are more spacious in size, with modern décor and recently renovated. These rooms are going fast. Don't miss the opportunity to book now!!

For Reservations call **866-227-5944** and book under Multi-Unit Franchising Conference. Callers can also use our group code to identify the group, **SCMUL5**

(After March 16, 2015, the group rate will be offered based on hotel availability only.)

2015 MULTI-BRAND 50

1	**NPC INTERNATIONAL**	**1,400**
	PIZZA HUT	1,263
	WENDY'S	133
	KFC	2
	TACO BELL	2
2	**TARGET CORP**	**1,183**
	PIZZA HUT	1,179
	COLD STONE CREAMERY	2
	JAMBA JUICE	2
3	**FLYNN RESTAURANT GROUP**	**640**
	APPLEBEE'S	465
	TACO BELL	170
	PIZZA HUT	3
	HUDDLE HOUSE	2
4	**ARAMARK**	**532**
	CHICK-FIL-A	108
	EINSTEIN BROS.	104
	SUBWAY	67
	PAPA JOHN'S PIZZA	36
	PIZZA HUT	36
	QUIZNOS	31
	PANDA EXPRESS	20
	JAMBA JUICE	19
	TACO BELL	17
	MOE'S SOUTHWEST GRILL	11
	TIM HORTONS	8
	THE EXTREME PITA	6
	CHILI'S	6
	SBARRO	5
	RAISING CANE'S	4
	FRESHII	4
	VILLA PIZZA	4
	KFC	4
	MCALISTER'S DELI	4
	ERBERT & GERBERT'S	3
	QDOBA MEXICAN GRILL	3
	SEATTLE'S BEST COFFEE	3
	COSI	2
	DUNKIN' DONUTS	2
	MOOYAH	2
	PINKBERRY	2
	JACK IN THE BOX	2
	TOGO'S	2
	SALAD CREATIONS	2
	BEN & JERRY'S SCOOP SHOP	2
	DENNY'S	2
	IHOP	2
	NOBLE ROMAN'S	2
	WENDY'S	2
	WHICH WICH	2
	RISING ROLL	1
	STEAK 'N SHAKE	1
	QUAKER STEAK & LUBE	1
5	**ARMY & AIR FORCE EXCHANGE SERVICES**	**473**
	BURGER KING	128
	CHARLEY'S GRILLED SUBS	85
	SUBWAY	85
	TACO BELL	41
	POPEYES LOUISIANA KITCHEN	40
	EINSTEIN BROS.	18
	TACO JOHN'S	13
	BLIMPIE	12
	CHURCH'S CHICKEN	11
	PIZZA HUT	10
	WING ZONE	8
	ARBY'S	8
	GODFATHER'S PIZZA	6
	CINNABON	6
	DOMINO'S PIZZA	2
6	**SUN HOLDINGS**	**453**
	BURGER KING	190
	POPEYES LOUISIANA KITCHEN	96
	ARBY'S	46
	T-MOBILE	46
	CICI'S PIZZA	45
	GOLDEN CORRAL	22
	KRISPY KREME	8
7	**HARMAN MANAGEMENT CORP**	**407**
	KFC	262
	A&W	121
	LONG JOHN SILVER'S	20
	PIZZA HUT	4
8	**HMSHOST CORP**	**387**
	BURGER KING	73
	QUIZNOS	40
	SBARRO	34
	CHILI'S	27
	PIZZA HUT	25
	GREAT AMERICAN BAGEL	23
	CINNABON	21
	ROY ROGERS FAMILY RESTAURANT	20
	NATHAN'S FAMOUS	17
	POPEYES LOUISIANA KITCHEN	16
	FAMOUS FAMIGLIA	9
	JOHNNY ROCKETS	8
	CHICK-FIL-A	6
	GREAT STEAK & POTATO COMPANY	6
	KFC	6
	KELLY'S CAJUN GRILL	5
	PINKBERRY	5
	MOE'S SOUTHWEST GRILL	4
	SALSARITA'S	3
	MAX & ERMA'S	3
	STEAK 'N SHAKE	3
	EINSTEIN BROS.	3
	RUBY'S DINER	3
	LA SALSA	2
	COLD STONE CREAMERY	2
	GODFATHER'S PIZZA	2
	DUNKIN' DONUTS	2
	JAMBA JUICE	2
	BAJA FRESH	2
	BLIMPIE	2
	VILLA PIZZA	2
	SMASHBURGER	2
	SONNY BRYAN'S SMOKEHOUSE	2
	SALAD CREATIONS	2
	ROMANO'S MACARONI GRILL	2
	SUBWAY	2
	YEUNG'S LOTUS EXPRESS	1
9	**TACALA/BOOM FOODS**	**384**
	TACO BELL	308
	SONIC DRIVE-IN	66
	PIZZA HUT	10
10	**SODEXO**	**374**
	EINSTEIN BROS.	68
	WOW CAFE & WINGERY	50
	CHICK-FIL-A	50
	PIZZA HUT	47
	JAMBA JUICE	29
	SUBWAY	23
	TACO BELL	19
	CHESTER'S	12
	BURGER KING	10
	PAPA JOHN'S PIZZA	10
	QUIZNOS	8
	TIM HORTONS	7
	BLIMPIE	6
	NRGIZE LIFESTYLE CAFE	5
	BAJA FRESH	5
	MOE'S SOUTHWEST GRILL	4
	SEATTLE'S BEST COFFEE	3
	GODFATHER'S PIZZA	3
	PJ'S COFFEE OF NEW ORLEANS	3
	MCALISTER'S DELI	3
	PLANET SUB	3
	QUAKER STEAK & LUBE	2
	CARL'S JR.	2
	KFC	2
11	**PILOT TRAVEL CENTERS**	**369**
	SUBWAY	189
	CINNABON	55
	WENDY'S	51
	ARBY'S	38
	TACO BELL	16
	PIZZA HUT	7
	HUDDLE HOUSE	5
	MOE'S SOUTHWEST GRILL	2
	KFC	2
	CARVEL	2
	DAIRY QUEEN GRILL & CHILL/TEXAS DQ	2
12	**MUY BRANDS**	**365**
	PIZZA HUT	227
	TACO BELL	75
	LONG JOHN SILVER'S	45
	WENDY'S	18
13	**BRIDGEMAN FOODS/ERJ DINING**	**289**
	WENDY'S	165
	CHILI'S	124
14	**WILCOHESS**	**280**
	DUNKIN' DONUTS	234
	WENDY'S	30
	SUBWAY	10
	ARBY'S	4
	GODFATHER'S PIZZA	2
15	**K-MAC ENTERPRISES**	**276**
	TACO BELL	231
	KFC	45
16	**HESS CORP**	**251**
	GODFATHER'S PIZZA	136
	QUIZNOS	112
	BURGER KING	3
17	**FUGATE ENTERPRISES**	**245**
	PIZZA HUT	173
	TACO BELL	72
18	**KBP FOODS**	**227**
	KFC	197
	TACO BELL	30
19	**QUALITY DINING**	**213**
	BURGER KING	166
	CHILI'S	47
20	**APEX RESTAURANT MANAGEMENT**	**208**
	KFC	109
	LONG JOHN SILVER'S	69
	A&W	30
21	**MARLU INVESTMENT GROUP**	**205**
	ARBY'S	50
	CHURCH'S CHICKEN	43

	SEARS OUTLETS & APPLIANCE STORES	40
	TGI FRIDAYS	22
	JACK IN THE BOX	21
	LITTLE CAESARS	19
	SIZZLER	5
	CAPTAIN D'S	5
22	**LOVE'S TRAVEL STOPS & COUNTRY STORES**	**203**
	SUBWAY	142
	ARBY'S	48
	GODFATHER'S PIZZA	13
23	**TA OPERATING**	**201**
	POPEYES LOUISIANA KITCHEN	53
	SUBWAY	43
	TACO BELL	38
	PIZZA HUT	35
	BURGER KING	28
	KNIGHTS INN	2
	TIM HORTONS	2
24	**CHARTER FOODS**	**177**
	TACO BELL	85
	LONG JOHN SILVER'S	75
	A&W	17
24	**JRN**	**177**
	KFC	176
	PIZZA HUT	1
26	**SIZZLING PLATTER**	**176**
	LITTLE CAESARS PIZZA	156
	SIZZLER	20
27	**CEDAR ENTERPRISES**	**170**
	WENDY'S	168
	BURGER KING	2
28	**THE PANTRY**	**169**
	SUBWAY	149
	DAIRY QUEEN GRILL & CHILL/TEXAS DQ	8
	LITTLE CAESARS PIZZA	5
	QUIZNOS	3
	CHESTER'S	2
	CHURCH'S CHICKEN	2
29	**SERVUS! (BR ASSOCIATES)/SIDAL**	**160**
	LONG JOHN SILVER'S	103
	WENDY'S	36
	DENNY'S	21
30	**RESTAURANT MANAGEMENT COMPANY OF WICHITA**	**155**
	PIZZA HUT	139
	LONG JOHN SILVER'S	16
31	**COMPASS GROUP USA**	**154**
	PAPA JOHN'S PIZZA	50
	SUBWAY	24
	EINSTEIN BROS.	18
	QUIZNOS	15
	PIZZA HUT	9
	JAMBA JUICE	8
	WENDY'S	7
	TACO BELL	5
	PINKBERRY	4
	BURGER KING	3
	MOE'S SOUTHWEST GRILL	3
	ROLLERZ	2
	JOHNNY ROCKETS	2
	BOJANGLES'	2
	UNO DUE GO	2
32	**AIMBRIDGE HOSPITALITY**	**146**
	BAYMONT INN & SUITES	49
	QUALITY INN/QUALITY SUITES, HOTEL, OR RESORT	42
	ALOFT HOTEL	8
	EMBASSY SUITES	7
	HOWARD JOHNSON	5
	HOLIDAY INN	5
	MARRIOTT HOTEL	4
	HYATT REGENCY/HYATT	4
	ECONO LODGE	2
	SHERATON HOTEL/RESORT	2
	FOUR POINTS HOTELS	2
	COMFORT/COMFORT INN & SUITES/ COMFORT SUITES	2
	HILTON GARDEN INN	2
	HYATT HOUSE	2
	WYNDHAM	2
	RADISSON HOTELS	1
	CAMBRIA SUITES	1
	DAYS INN	1
	HILTON/HILTON SUITES	1
	WINGATE BY WYNDHAM	1
	CROWNE PLAZA	1
	FAIRFIELD INN/INN & SUITES	1
	SUPER 8	1
33	**CELEBRATION RESTAURANT GROUP/ CFL PIZZA/BRAVO FOODS**	**139**
	PIZZA HUT	99
	TACO BELL	40
34	**DOHERTY ENTERPRISES**	**134**
	APPLEBEE'S	100
	PANERA BREAD	34
35	**RLJ LODGING TRUST**	**130**
	COURTYARD BY MARRIOTT	32
	RESIDENCE INN BY MARRIOTT	30
	FAIRFIELD INN/INN & SUITES	11
	HILTON GARDEN INN	10
	HAMPTON INNS	9
	SPRINGHILL SUITES	9
	EMBASSY SUITES	6
	MARRIOTT HOTEL	6
	HOLIDAY INN	4
	HYATT HOUSE	4
	RENAISSANCE HOTELS & RESORTS	3
	HILTON/HILTON SUITES	2
	DOUBLETREE HOTELS/DOUBLETREE GUEST SUITES	2
	HOMEWOOD SUITES BY HILTON	2
36	**DESERT DE ORO FOODS**	**128**
	TACO BELL	69
	PIZZA HUT	59
36	**VALENTI MANAGEMENT**	**128**
	WENDY'S	112
	CHILI'S	16
36	**CAFUA MANAGEMENT COMPANY**	**128**
	DUNKIN' DONUTS	124
	DUNKIN' DONUTS/BASKIN-ROBBINS	4
39	**PALO ALTO**	**124**
	PIZZA HUT	72
	TACO BELL	35
	KFC	17
40	**WISCONSIN HOSPITALITY GROUP**	**121**
	PIZZA HUT	83
	APPLEBEE'S	38
41	**JEM RESTAURANT GROUP**	**119**
	PIZZA HUT	90
	TACO BELL	29
42	**THE SCRIVANOS GROUP**	**118**
	DUNKIN' DONUTS	117
	DUNKIN' DONUTS/BASKIN-ROBBINS	1
43	**BRIAD RESTAURANT GROUP**	**114**
	TGI FRIDAYS	66
	WENDY'S	48
44	**BORDER FOODS**	**108**
	TACO BELL	83
	PIZZA HUT	21
	CHURCH'S CHICKEN	4
45	**W2007 EQUITY INNS REALTY**	**104**
	HAMPTON INNS	31
	RESIDENCE INN BY MARRIOTT	24
	HYATT PLACE	15
	COURTYARD BY MARRIOTT	14
	HOMEWOOD SUITES BY HILTON	10
	SPRINGHILL SUITES	5
	HOLIDAY INN	2
	FAIRFIELD INN/INN & SUITES	1
	TOWNEPLACE SUITES BY MARRIOTT	1
	EMBASSY SUITES	1
46	**W2005/FARGO HOTELS REALTY**	**99**
	FAIRFIELD INN/INN & SUITES	36
	RESIDENCE INN BY MARRIOTT	27
	COMFORT/COMFORT INN & SUITES/COMFORT SUITES	14
	HAMPTON INNS	9
	HOMEWOOD SUITES BY HILTON	8
	TOWNEPLACE SUITES BY MARRIOTT	3
	SLEEP INN/SLEEP INN & SUITES	2
47	**LUIHN FOOD SYSTEM**	**97**
	TACO BELL	60
	KFC	34
	PIZZA HUT	3
47	**TANWEER AHMED**	**97**
	KFC	93
	TACO BELL	4
49	**BURGERBUSTERS**	**94**
	TACO BELL	83
	PIZZA HUT	11
50	**B & G FOOD ENTERPRISES**	**93**
	TACO BELL	78
	KFC	11
	PIZZA HUT	4

TOP 25 BRANDS OF THE 2015 MULTI-BRAND 50

1	PIZZA HUT	3,610
2	TACO BELL	1,592
3	KFC	1,023
4	WENDY'S	770
5	SUBWAY	734
6	APPLEBEE'S	603
6	BURGER KING	603
8	DUNKIN' DONUTS	479
9	LONG JOHN SILVER'S	328
10	CHILI'S	220
11	EINSTEIN BROS.	211
12	QUIZNOS	209
13	POPEYES LOUISIANA KITCHEN	205
14	ARBY'S	194
15	LITTLE CAESARS PIZZA	180
16	A&W	168
17	CHICK-FIL-A	164
18	GODFATHER'S PIZZA	162
19	PAPA JOHN'S PIZZA	96
20	TGI FRIDAYS	88
21	CHARLEY'S GRILLED SUBS	85
22	CINNABON	82
23	RESIDENCE INN BY MARRIOTT	81
24	SONIC DRIVE-IN	66
25	JAMBA JUICE	60

Source: FRANdata

BY EDDY GOLDBERG

A QUESTION OF Balance

IMPROVING FRANCHISE AGREEMENTS FOR A NEW ERA

Franchise agreements: can't live without 'em, can't kill 'em. However, there is a major effort under way—by franchisors and franchisees alike—to cure what ails them.

One big goal is to make them more balanced, to shift the preponderance of power from franchisors to create a more equitable document. This doesn't mean weakening brand standards: the brand and its intellectual property must be protected, or the entire system will suffer. However, it does mean things like greater franchisee participation, collaboration, transparency, and clarity written into the agreements.

The list of complaints about onerous or restrictive terms is well known: liquidated damages, personal guarantees, transfer rights, binding arbitration, default provisions, system changes, and more. The challenge is how to improve franchise agreements in a franchising world that's changed considerably since the days of handshakes and single-page agreements (see chart).

In fact, many argue, an overly restrictive franchise agreement not only can drive sophisticated multi-unit operators to the competition, it also can attract the interest of state and federal regulators and officials, elected or appointed (see NLRB, page 84). Franchising is changing, and franchisors had better change along with it, or fall by the wayside.

"With the sophistication of franchisees, the investment levels that are required today, and the competitiveness of the business marketplace today, it is an absolute strategic advantage for a franchisor to have a better franchise agreement than a competitor," says Aziz Hashim, general partner of NRD Partners, the investment fund he created last year to allow multi-unit franchisees to own or invest in franchise brands.

"It is an immense benefit to a franchisee to sign up only with brands that have franchise agreements that I would term to be superior or reasonable," he says. "And for the franchisor, it's important to note that the franchise agreement is becoming a competitive issue. You can't have the most restrictive franchise agreement out there and expect to attract high-quality franchisees. They will not come."

Hashim and Brian Schnell, an attorney with Faegre Baker Daniels, have been working together on a series of articles for the IFA on franchise agreements, franchisor-franchisee relations, and related topics.

"One of the roles of the franchise agreement is to allow the franchisor to grow, protect, and evolve the brand and the brand's stakeholders," says Schnell. "If you have an agreement that's so airtight as to win every franchise dispute, I think you're going to get more and more franchisees, especially multi-unit franchisees, saying, 'I'm not going to sign this.'"

Says Hashim, "We've been trying to educate franchisors to not think of the franchise agreement as their way to set the ground rules. It's really a competitive document."

Never equal

Balance is the keyword here, or perhaps more accurately imbalance, in addressing the problems caused by franchise agreements tipping steadily in favor of the franchisor in recent years. For Schnell, a key question is, How do you find the *right* balance between the interests of the franchisor and its franchisees?

In a franchise agreement, balance will mean different things to different people, depending on where their interests lie. "Balance doesn't mean mutual provisions. It doesn't mean a democracy. It doesn't mean that a franchisor in evaluating a system change is going to take a vote. That's not balance," says Schnell. "It is, in my perspective, finding that balance that allows the franchisor to do what it needs to do, and that allows the franchisee to do what it wants to do—within the context of being part of the brand and the system. And that's easier said than done."

"It's never going to be 'equal' balance. It's always going to be skewed toward the franchisor because it is the franchisors' intellectual property—which has to be protected. There is no question about that," says Hashim. "On the other hand, in the past few years, there has been a tendency to create some very onerous language, to restrict the franchisee in ways that I think are almost anti-entrepreneurial," he adds. "It's like a lease—you sign a lease and the landlord's and the tenant's rights are never the same, but you can't have it so far shifted to one side that it doesn't make sense for the other party any more."

If the franchise agreement is too one-sided, says Schnell, "It's likely not going to have enough balance for franchisees, in particular multi-unit franchisees, to get a return on their investment, to have the certainty that they're looking for so they know what this relationship and journey and business will look like over the next 5, 10, or more years."

Beyond the law

"While the franchise agreement is usually regarded as the legal contract, there is another aspect of the agreement called the 'psychological contract,' which can be just as important," says Greg Nathan, founder of the Franchise Relationships Institute. This, he says, refers to the implied expectations franchisees and franchisors have of each other. "Franchisor executives and multi-unit franchisees need to talk more to each other about their mutual expectations in an annual face-to-face catch-

up—in particular around the higher-level support multi-unit franchisees expect as they grow, and the involvement and participation the franchisor expects from its multi-unit operators."

"Over time, I have structured our agreement to the point that the content serves us well," says Don Fox, CEO of Firehouse of America. "But if I were to really think outside of the box, I would do a fundamental restructuring of the way franchise agreements are *typically* constructed. I would change the architecture of the document so that it clearly delineates the franchisee's obligations and the franchisor's obligations (actually present them in separate sections of the agreements, as opposed to intermingling the two parties' obligations). I think this would lead to a much clearer and concise discussion and understanding of the respective roles and responsibilities."

"I think that it's not really what specific items need to change, but an attitudinal transformation in how franchise agreements treat franchisees," says Keith Miller, a multi-unit Subway franchisee in Grass Valley and Auburn, Calif., and chair of the Coalition of Franchisee Associations.

Much of today's imbalance, he says, has been created by contracts that have grown from 5 to 50 pages, defining what the franchisee must do or can't do, while continuing to diminish any responsibility or liability for the franchisor. "When you see contracts attempting to void the implied covenant of good faith, you really see that this imbalance has gone too far. Unless the imbalance that Aziz mentions is changed, and the pendulum swings back to a more balanced state, the industry is at risk long term. If Aziz and his investors are successful with their fund, that could help drive—and lead the way to—the change that will strengthen franchising in the long term."

Rocco Fiorentino has been a multi-unit franchisee and a franchisor. Today, as CEO of Benetrends, he reviews franchise agreements as part of his company's financing due diligence. "I've negotiated agreements from both sides of the fence, and always try to do the right thing. I'm not a big fan of changing agreements, I'm a bigger fan of franchisors putting together franchise agreements that are fair and equitable to the brand, and don't have to be negotiated because you've taken into consideration certain things," he says.

"If a franchisee asks me to make a change, if it's a reasonable change I should make it a change for everyone, so they're consistent. If it's not a reasonable change, I should say, 'I'm sorry my franchise agreement doesn't work for you,' and move on. But you shouldn't have different deals with different people—that is not good management for a brand."

It's all about the "how"

"You can have two franchise systems with exactly the same agreement, and one system can have all sorts of relationship issues, and in the other system the relationships can be at the top of the game—the exact same agreement," says Schnell. "And that's why it's not just about the agreement. That's why it is *how* the franchisor and the franchisee relate to one other. What's the culture of the system? What's the relationship between the franchisor and the franchisees? A big part of this is beyond the franchise agreement."

So how should the franchise agreement play a role in the culture of the franchise system and how franchisees and their franchisors relate to one another? In Schnell's view, the franchise agreement plays a big role in the ongoing relationship, but not the leading role.

"If franchisors and franchisees are trying to continue to improve the business model and the system, and do what they need to do to remain competitive in the marketplace, the linchpin can't be, 'What does the franchise agreement say?' The linchpin has to be, 'What do we need to do to stay ahead of the competition, respond to the ever-changing demands of customers, and how do we do that collaboratively?' Because if it's not that way and the franchisor is saying, 'Well, I'll tell you what and when we're going to do it,' that is going to be a much tougher way to get business done."

What about tomorrow?

"Franchisees need to understand that the agreement matters," says Hashim. "It may not matter today, because the management team you're meeting with may be very nice and you may trust them and they may have a fantastic reputation. But you're entering into a 20-year marriage with this company, and the management team is going to change hands many times."

Problems can arise down the road if subsequent management teams interpret the franchise agreement differently, says Hashim. "They'll say, 'This is what you signed. It doesn't matter what was told to you before. This is what you signed and we're going to enforce this franchise agreement to the letter.'"

He says that's where a lot of the disconnect is happening with franchise relations today. "Franchisees are told, 'Don't worry about the franchise agreement, we don't really enforce that provision,'" he says. "Really, then why is this restrictive provision in there if they never enforce it? And even if they don't enforce it, who's to say that their successor will not enforce it?"

Greg Cutchall, a multi-brand franchisee in Omaha with about 10 restaurant brands and 50 units (it keeps changing), provides two examples:

1) Closing locations before the end of the franchise term and being liable for royalties for the balance of the agreement—something no one seems to like, yet it remains part of many franchise agreements. "In fairness, I will say the franchisor companies I have partnered with have never enforced these clauses, but they should be removed or revised in the agreements."

2) Not opening a unit by the dates specified in a multi-unit or territory deal. "I understand they have the right to seek someone else to develop a market if the franchisee does not meet development timelines and risks losing pre-paid territory fees. But to charge you royalties for a location not open I would classify as cruel and unusual punishment. For most franchisees the reasons they fall behind are not securing acceptable sites and underperformance of existing locations."

Clarity, not lawsuits

"Often, franchise agreements lack clarity," says Schnell. "We lawyers tend to write in legalese, and often legalese can be interpreted in different ways. Clarity is important." For example, if a franchisee is not playing by the rules, he says, the franchise agreement should allow the franchisor to deal with that in a way that protects the brand. But agreements that lack precise language can be expensive.

"If the franchise agreement is not clear, that requires the franchisor to spend hundreds of thousands of dollars in litigation or in disputes with the franchisee. That doesn't benefit anybody," he says. "Franchisees and franchisors shouldn't want a court or an arbitrator to be second-guessing every decision that's made. That's not what this is all about."

"Although I'm not a licensed attorney and don't practice law, I certainly have a strong feeling about default provisions," says Fiorentino. Too frequently, he says, Roy Rogers

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IMPROVING THE FRANCHISE AGREEMENT

We asked a dozen people for their thoughts on today's franchise agreements. Here's what they had to say about what they want in—or out.

Paul Mangiamele, CEO, Bennigan's

- It would be great if they were in simple and plain English, not obfuscating legalese.
- They should demonstrate collaboration with franchisees and not be so one-sided and threatening. The positive spirit of a proposed franchise partnership is sometimes put in jeopardy by the restrictive and punitive nature of the franchise agreement.
- It is truly a shame that the irrefutable bond of someone's word and handshake has been lost over the years because of the litigious environment our culture has created.

Lane Fisher, Attorney, Fisher Zucker

- FPRs should be mandatory and contain certain baseline information (franchisors can present more if they desire) so prospects can make a better-informed choice.
- More exemptions surrounding FPRs, so that franchisors can share more specific financial information to multi-unit sophisticated franchisees outside of the FDD.
- Greater flexibility to the disclosure rules to craft a transaction that materially differs from what's presented in the FDD when negotiating with a sophisticated multi-unit franchisee.

J. Michael Dady, Attorney, Dady & Gardner

- Consecutive renewal rights, with renewal agreements that do not materially differ over time, provided that the franchisee is not in default at the time the franchisee requests the renewal.
- Franchisees who are operating at locations that are, despite their best efforts, losing money may close those franchise locations without being liable to their franchisor for lost future royalties or advertising fees over the remaining term of the franchise agreement.
- Both the franchisor and the franchisee agree to deal with each other in an honest, good faith, non-discriminatory, and commercially reasonable manner. Who can be against that?!

Michelle Rowan, President, Franchise Business Review

- Franchisors focusing on delivering transparency and clear expectations for candidates via the FDD and franchise agreement.
- Item 19s providing more in-depth information to help a prospective franchisee figure out net profit potential.
- Systems actively encouraging prospective franchisees to take the time to determine a realistic profitability figure and provide them with information regarding how they can do so, along with a list of independent accountants with franchise experience who can assist them.

Joyce Mazero, Attorney, Perkins Coie

- Integrate more specific statements of works for services to be undertaken by franchisors, and corresponding KPIs with a gain/pain share formula for rewarding or, at a minimum, motivating improved performance.
- Engagement of franchisees in the franchisor's supply chain arrangement expressly set out in franchise agreements like advertising and marketing fund and coop arrangements are now, including franchisor-sponsored collaborative buying groups, purchasing councils, and purchasing coops.
- Contracts that reflect the commercial makeup of sophisticated contracting parties. This means addressing more specifically the elements important to both parties.

Rob Branca, Franchisee

- Renewal rights were very important to us, and we got a clause granting us that right. Of course, it has caveats, but it is a step in the right direction. Without renewal rights, a franchise is a continually dwindling asset, becoming worth less as your term winds down.

Michael Seid, Managing Director, MSA Worldwide

- Shorter documents that do not try to button down every possible event that may take place over 20 years. The length of the agreement and the language used often make it less than an optimum document.
- Better drafting by lawyers so the terms of the documents have the meaning intended. There really needs to be a standard of competence in drafting. That is often not apparent with some lawyers. It is past time that we have an ABA standard of who can call themselves a franchise lawyer.
- Franchise agreements need to be based on the business realties of the relationship and not on a legal viewpoint that appears to consider franchising as a more fungible legal relationship.

Darrell Johnson, CEO, FRANdata

- The right of a franchisee to realize the value of their equity in the franchise unit.
- Franchisor restrictions over unit transfer rights.
- The level of risk a franchisee assumes beyond the operation of the business unit.

Jeffrey Tews, Franchisee

- An ROI factor included in the general marketing funds calculation.
- A balance of the non-compete clause required for franchisees to closer match the placement of the location of additional stores.

Gary Robins, Franchisee

- Liquidated damages clauses should not be a part of agreements.
- Covenants of good faith and fair dealing should be included and cannot be agreed to be "waived."
- Fairness in dispute resolution.

Rupert Barkoff, Attorney, Kilpatrick Townsend & Stockton

- Franchise agreements are too long for most deals. Some of the earliest franchise agreements were only one page long.
- How much detail is needed to protect the franchisor's rights? Consider using less detail and in particular moving much of this detail into the operations manual.
- Think carefully about the franchise agreement's organization. Some are based on the timing of events. Others try to segregate the duties and rights of the respective parties. Some of them are organized without any thought as to the logic of the chosen organization.
- Put the key elements of the franchise relationship—the grant, the term, renewal rights, the territory, and the price (up-front fees, royalties)—within the first 3 pages of the agreement; the rest is only filler.

Greg Cutchall, Franchisee

- Some agreements have a clause if you do not open as per dates in the development/franchise agreement you are liable for lost royalties. This is ridiculous.
- Closed location prior to franchise term being liable for royalties the balance of the agreement.
- Territory protection and too-aggressive market development plan.
- Franchisor owning/operating competing brands.

Gary Grace, Franchisee

- Eliminate franchisor right of first refusal.
- A "good faith and fair dealing" clause.

Ricky Warman, Franchisee

- Protection of the area around stores should be bigger. Depending on the concept, the area will vary, but all concepts need better protection.
- There needs to be an exit clause. Most franchisors hold you responsible for a long time even if the business is not profitable.
- Franchisors need franchisees and vice versa, thus it should be a partnership.

attorneys advise their franchisor clients to settle disputes through binding arbitration. He doesn't like that.

"Binding arbitration is probably the worst thing any franchisor can agree to. What I've done as a franchisor was change all my franchise agreements to allow us to settle disputes first and foremost by nonbinding mediation, and then if we couldn't settle we'd go to pure litigation—with rules."

Fiorentino says the reason he likes nonbinding mediation is simple: it gets both parties to the table. "I always felt that as a franchisor, the last thing I wanted to do was win a lawsuit; the first thing I wanted to do was fix a problem." He says you don't really know about a problem in the system until you get to nonbinding mediation. "So often, a CEO of a franchise brand may not even be aware of a franchisee issue until it gets to litigation and they have to sign a paper from their lawyer who says, 'We've got a franchisee we've put it default and we're going to arbitration.'"

For him, that's the last resort. Instead, says this former franchisor, "I view franchisees as partners. If somebody invests money into my brand and they open a location and are a good operator and they follow the system, if the location doesn't work, and no matter what we or they do can get it to breakeven or profitability, it's time to close that location and move on, or relocate it."

Fiorentino prefers a clause that allows the relocation of an underperforming unit—"and certainly not hold anyone, especially a partner that invested in your brands, hostage for what they deem as future royalties. That's something that really gets me. I've never in my career as a franchisor ever gone after anyone for future royalties."

However, he adds, if someone left his system and started their own, similar concept, "I'd absolutely go after them—for everything, not just future royalties. Other than that, I wouldn't. If I had a good franchisee that says 'This location doesn't work, I need to relocate it,' or they just ran out of money, I'd certainly wish them the best and thank them for the college try."

Making it better

As his investment fund gears up to acquire franchise brands, Hashim is determined to have franchise agreements he'd be willing to sign himself, based on his 20 years of franchising with many different restaurant brands.

"We're going to make sure that we incorporate into our franchise agreements the sort of 'best practices' of franchise agreements to the extent that they can be as reciprocal as possible. We want our franchisees to know that they have certain rights, that they're going to have certain protections, and they can go forth with this investment knowing that there's a brand there that cares about their investment and is not there to minimize or damage their equity in the investment," he says. "Our franchise agreements are not going to be soft on standards, on the responsibilities of being a franchisee for the brand, but there will be an attempt made to have some sort of balance in it."

That's the direction franchise agreements are moving today, he says, and franchisors are getting the message. "They are beginning to understand that if their franchise agreements are so restrictive, so one-sided, so non-mutual or non-reciprocal, good franchisees will pass over their brand and go somewhere else." And, as his fund acquires brands, perhaps those good franchisees will come to him. MUF

BY DEBBIE SELINSKY

OUTSTANDING IN THE FIELD

Getting what you need, when you need it

What franchisees want from corporate field support is pretty straightforward. Basic expectations include great products, marketing and brand support, ongoing training, site selection, purchasing power for goods and services, and participation in product and program testing. While those are the table stakes, what makes systems *really* successful and builds strong relationships between franchisor and franchisees is communication, consistency, and listening,

"For our organization, what's most important is for our field consultants to communicate the same message," says Spencer Smith, CEO of the Smith Group in Cortez, Colo., which operates nearly 50 Aaron's stores and 3 Rent A Wheel units across 8 western states. "We have 46 Aaron's locations, so we have 5 different field consultants from Canada to Mexico. We sometimes face the challenge of not having continuity of message. Consistency is key."

Finding the best ways to communicate, however, can be a delicate balancing act. "The challenge is finding the sweet spot," says Smith. "I've experienced both under-communication and over-communication, where there's so much white noise coming at us, especially in the email age, that the sweet spot seems to swing back and forth."

Don Davey, who operates 16 Firehouse Subs in Florida and Wisconsin and has signed a 10-year deal as an area developer for 42 more in his native Wisconsin, believes successful communication often comes down to good *listening*. "It's very important for the franchisor to listen to the franchisees. After all, we're the guys out there who've invested money in this brand and are living and breathing it every day. At Firehouse, I don't have a lot of complaints. They're good at listening to us."

Consider when Firehouse Subs corporate asked franchisees to increase their marketing spending by 2 percent. "That 2 percent came from our pockets, so we challenged corporate to help us offset the increase with cost savings elsewhere—maybe with better vendor pricing for food or software. So they set up a profitability committee and squeezed out that 2 percent in cost savings. That's how responsive they are," says Davey, a retired NFL player who received *Multi-Unit Franchisee* magazine's MVP Influencer Award for Former Pro Athlete in 2014, and was named the IFA's Franchisee of the Year in 2013.

Brooke Wilson, who with her husband Les owns nine Two Men and a Truck franchises in North and South Carolina, Maryland, and D.C., says their business relies heavily on ongoing training, as well as on regular communication with the corporate field support teams to share best practices across the network. "A benefit of being part of a franchise system is that no challenge is unique," says Wilson. "We all deal with the same struggles and achievements, so sharing processes and methods that have proven successful eliminates trial and error and makes sense for everybody." She and her husband were named the IFA's 2010 Franchisees of the Year.


Spencer Smith

Ideally, field consultants and franchisees move in lockstep. But franchisors and franchisees are sometimes in different businesses, says Wilson. "As a system grows, the disconnect between corporate and local franchises can become more distant. Two Men and a Truck International and many other franchise networks have implemented strategies to limit the disconnect. Our FBCs spend a lot of time in franchise facilities and talking with franchisees and staff in an effort to really understand day-to-day operations, challenges, and successes.

"In addition, an elected representative body of franchisees regularly participates in business planning and policy update discussions with corporate, thereby providing opportunity for franchisee perspective at the corporate level. Although these measures aid in communication and mutual understanding, it's also important that both the franchisee and franchisor acknowledge each other's position and try to view circumstances from both perspectives. We do share the common goal of a successful, growing, and profitable brand, but accomplishing this shared vision requires a partnership and both pieces of the puzzle."

Training and HR

The challenge to franchisors is real. Examining a sample of 38 franchise concepts, FRANdata found that brands with a below-average ratio of both field support staff to franchised units and field support staff to franchisees tend to experience lower continuity rates and higher business failure rates, and that brands with an above-average support ratio tended to maintain a higher continuity rate than brands with a below-average support ratio.

Jacob Grosshandler, in a column for this magazine written when he was a research analyst at FRANdata (Q1 2014), put it succinctly: "Every unit closure represents a lower return on dollars allocated to development and training. In other words, if you are not adequately supporting your franchisees you are driving your ROI, earnings, and cash flow lower."


Don Davey

Davey cites an example of Firehouse corporate giving franchisees not only new products, but also the support and training that has helped them become more successful. "A lot of fitness people love our food but wanted something lower in calories. So after research and testing, Firehouse came up with a Hearty and Flavorful menu. We were excited, but franchisees wondered how to roll out this great idea in our restaurants," he says. "The field team came in, changed our menus, installed the new menu boards, and trained crews on how to make the menu. It was a smooth and seamless transition, and the menu is a hit."

Training also is near the top of Wilson's list of needs from Two Men and a Truck. "I am fortunate to be part of a system that commits a lot of resources to training, both initial and ongoing. No matter how great the training provided, franchisees will learn a lot from experience. However, it's important for us to utilize all the resources available to us, including corporate training, peer groups, and small-business networks," she says.

"Standard processes communicated at a corporate level must be tweaked to accommodate for market variance and personality. Finding the sweet spot in providing training at a general level while providing franchisees the opportunity to interpret and implement in a unique way can be tough," she says. "As a new franchisee, we wear many hats and are responsible for operations, marketing, sales, finance, and human resources. Because we are often self-taught in many facets of the business, it's helpful to have training itineraries with specific departmental focus and/or support in recruiting, hiring, and training department teams."

For example, Wilson says she and her husband have marketing-type degrees, are sharp when it comes to finance, and know operations like the backs of their hands. However, she says, "We are self-taught in human resources, an area of the business that provides significant risk, especially as our employee base grows and federal and state governments become more integrated. We recognize a need for someone smarter and more knowledgeable about HR than we are, but struggle with how to find the right person—and, once found, we are not equipped to train this person since they should know more than we do. In conceding to this fact and need, Les and I have hired third-party consultants to assist in identifying the specific need type and recruitment and development of this employee."

Sites, processes, procedures

Corporate help in finding the best sites is also of critical importance to franchisees, especially in the beginning, says Smith. "Site selection assistance is critical for the first few stores, but now that we're up to dozens of stores, I like to think our organization is as well dialed-in as the franchisor."

Wilson agrees that the franchisee should know more about their market than anyone else. "I think it's important for a franchisee candidate to research and understand the market of interest. A franchisor can help guide a candidate toward a market that meets the requirements for franchise development, but no one will know the community, market personality, and demographic better than the business owner," she says. "Understanding the wants and needs of a community is vital to a business owner's success in a franchise market."

Another topic of ongoing interest to franchisees is system processes and procedures. Smith believes that for every system, it is key to have "processes and procedures driven home in a productive way," he says. "The 'secret sauce' within the organization is having everyone doing everything the same way. With that being said, another value we get from our consultants is the sharing of best practices. In my view, there's a big difference between following the program and not reinventing it, and incorporating best practices from other franchisees and corporate divisions having success with them."

Wilson, who with her husband is co-chairing the IFA Franchise Action Network's Coalition to Save Small Businesses, is especially appreciative of Two Men and a Truck's benchmarking tools and business intelligence reports. "These are great. Participating in an open system of shared data with the ability to sort and filter content allows insight into my business, and benchmarking the data against other franchises with similar markets, fleet size, and revenue size helps to identify measures to strive for and franchisees to seek support from," says the 35-year-old entrepreneur, who credits her mother, Cecelia "Cece" Stewart, former president of U.S. consumer and commercial banking at Citibank, for


Brooke and Les Wilson

her own burning drive to succeed.

Few franchisees would argue that they depend a great deal on corporate for marketing and brand support. When Firehouse voted "as a franchise community" to increase advertising spending nationwide, franchisees expected a lot from the national TV and radio ads and billboards they'd agreed to pay for.

"For the first time in history, from coast to coast, everybody in America is seeing our product," Davey says, citing the humorous Firehouse TV commercials featuring brothers and co-founders Chris and Robin Sorensen. "January was a fantastic month for us," he says. "If I were a mom-and-pop business involved in regional marketing, there would be no way to leverage all 800 other franchisees out there."

Smith, *Multi-Unit Franchisee* magazine's 2013 MVP Role Model Award honoree, also feels strongly that franchisees should be a part of testing new products, services, and programs. "It's important to do a lot of beta testing before something new is rolled out. There are definitely nuances when it's rolled out in corporate and in the franchises," he says. "By selecting a division of corporate stores and some stores on the franchise side, it's easier to pinpoint problems quickly before it's rolled out to the entire system. It can save a lot of heartache and financial loss."

Davey has often volunteered his units to test items for Firehouse. "They own 30 stores and they test in their restaurants and also put it out for volunteers with franchises. We've tested items for them. Some have worked and some have not. But it's important for us all to go through this process," he says.

Negotiating better prices for products and services is another way corporate field consultants can have a major impact on franchisees, says Davey. "This is an area where they can really add value. Even within a local market like Orlando, which has 42 restaurants, they have successfully negotiated the prices of things like window washing, uniform cleaning, and even contractors building stores when they offered vendors all 42 restaurants in a nice contract," he says.

Says Wilson, "Two Men and a Truck offers a vendor partnership program that provides franchisees with a list of supplier referrals from qualified vendors that have a proven commitment to our franchise system in fields necessary to our business model. Open communication between franchisees and franchisors provides avenues for reference checks when pursuing new vendor relationships. Positive experiences with vendors travel fast; negative experiences travel faster."

Size matters

Though all franchisees aspire to success, their needs can differ depending upon their number of units and unique market challenges.

"When you're 2 or 3 units you need someone to teach you what to do, but when you get up to 30 or 40 units there are important little nuances within the culture that we're well aware of and seeing from the same viewpoint," says Smith. "We have a more global view."

"As a large operator, I face challenges that single-unit owners don't," says Davey. "To their credit, Firehouse and CEO Don Fox rolled out a large operators committee for those with more than five units. Twice a year we get together and talk about issues we face, such as how to train and what to pay district managers to oversee some of our restaurants, and how to comply with the Affordable Care Act. It's nice that the franchisor saw this need and gave us a forum for connecting with other large franchisees in our system."

Franchisors know that providing prompt and effective field support to franchisees is essential to the health of the system, says Davey. "The first thing would-be franchisees do is call up a system's franchisees to see if they're happy, making money, and getting support from corporate. Franchisors know the success of the brand starts with the franchisees. If they're not happy and making money, the system isn't going to be able to partner up with the best people." MUF

BRETT PONTON

Before becoming CEO at American Driveline Systems (parent company of AAMCO Transmissions, Cottman Transmission Systems, and Global Powertrain Systems) in September 2013, Brett Ponton was a franchisee. In fact his Heartland Jiffy Lube organization was the brand's largest franchisee, with more than 500 units.

"As a franchisee, you wake up every day trying to create value for your company, whether you're a large multi-unit owner or a small proprietor," says Ponton. "And as a franchisee, you expect your franchisor to be working on programs and initiatives that, at the end of the day, create value for you. That's the backdrop of what we're trying to bring into the company. Every initiative we launch is for the franchisee." And as a franchisor, he says, "Our key role is to grab the best practices from the body and share them with our franchisees."

American Driveline's support to franchisees includes training across three areas: technical, management, and ownership, says Ponton. "From the franchisee perspective, what makes great retailers is great people. I firmly believe it is our responsibility to provide the training to help develop good people and demonstrate to them a career path with the opportunity to grow both professionally and economically. As we provide these opportunities, we are rewarded with loyalty, more engagement, and better care of the consumer."

Another important development targeting franchisee success was the addition of Newnan, Ga.-based Global Powertrain Systems, which refurbishes transmissions. "This purchase directly helps our franchisees control their labor and inventory costs on their highest and most profitable ticket—transmissions—thus positively affecting their bottom line," says Ponton.

"This speaks to one of the requests we've gotten from franchisees to simplify the model and make it easier to execute," he says. And in February, American Driveline announced the opening of its new AAMCO University in Newnan, about 40 miles southwest of Atlanta. MUF

BY KERRY PIPES AND EDDY GOLDBERG

NLRB Overreaches and Franchising Fights Back

JOINT EMPLOYER SHIFT THREATENS THE FRANCHISE MODEL

At the IFA Convention in February, one of the biggest buzzes was generated by the National Labor Relations Board's (NLRB) efforts to expand the definition of "joint employer." There's good reason for concern in the franchise community: if adopted, the change would significantly affect franchisees, their employees, and how they operate and sustain their businesses—for the worse. In the worst-case scenario, it could put franchisees out of business.

For decades, franchisees and franchisors have been considered separate entities. Under the NLRB's proposed expansion of their definition of joint employer, franchisees would, in essence, cease to exist. The franchisor and its franchisees would effectively become one, with franchisees basically becoming employees. The ramifications are extraordinary.

So far there have been hearings on Capitol Hill, op-ed pieces in numerous publications, and a number of groups rallying around the country to create awareness and to combat the proposed change to the definition of joint employer.

"I operate as an independent standalone business," John Sims testified before the Senate Health, Education, Labor, and Pensions committee in February. "I have the autonomy to run my business as I see fit," said Sims, owner/operator of Rainbow Station at The Boulders, an early education center in Richmond, Va.

"However, if the Labor Board radically changes the joint employer standard, I fear that my days as an autonomous business owner will be numbered," the franchisee told the committee. "The success or failure of my business is, essentially, all on me—and that is what I love about it. It would be a real shame to take these types of opportunities away from people like me."

Sims employs 40 at his Rainbow Station location. He and his wife were considering opening another location, but ongoing regulatory uncertainty has put their plans on hold.

Similarly, Gerald Moore, owner and operator of five The Little Gym franchises, is also putting his expansion plans on ice as he awaits the NLRB's decision. Moore, an Army veteran, was drawn to franchising because it gave him the skills and tools necessary to build a business he could operate with his family and eventually pass on to his children and grandchildren. But now he wonders if that will even be possible.

If the NLRB expands its existing joint employer definition, "Our family business would no longer be ours," Moore told the committee. "Simply put, small-business owners will be less attractive business partners for franchisors, and there can be no doubt that this will drastically reduce the opportunities for business ownership all across the country."

The battle is joined

Franchisees and franchisors alike are getting organized and speaking out. And they're not fighting the battle alone. Allied organizations have begun to emerge, representing franchise interests and fending off the NLRB's broad redefinition of joint employer. The Coalition to Save Local Businesses is intent on educating public officials (especially members of Congress and the Obama administration) about the importance of permanently codifying the decades-old, common-law definition of joint employer.

There's also the Job Creators Network (JCN), part of a coalition of organizations and associations standing against the NLRB's position on joint employer and educating the business community, legislators, and the media on the issue. The JCN outlines three significant effects of the broader interpretation of joint employer:

- Existing franchisees who own their businesses will lose a great deal of autonomy when it comes to how they hire, compensate, and deal with employees.
- Franchisors, facing greater liability, would likely raise franchise licensing costs, and reduce franchising opportunities for new or inexperienced entrepreneurs.
- Current franchisees with contracts that include indemnification clauses may be on the hook for their franchisor's legal fees if both are named in a joint employer case.

The IFA is continuing to do its part to get the message out. The organization recently released a survey of its members that illustrates the broad concern franchisees are experiencing: 97 percent of respondents said that an expanded joint employer standard would have a negative impact on their business; 82 percent said the impact would be "significant."

Clearly, the NLRB could wreak havoc on franchising—and severely diminish the economic benefit franchising brings to communities and the national economy. A study released earlier this year by IHS Economics and the IFA predicted that in 2015 the number of franchised businesses will grow to 781,794 (up 1.6 percent over 2014); directly employ 8.8 million (an increase of 247,000 jobs, up 2.9 percent from 2014's total); and account for $889 billion in economic output (up 5.4 percent from 2014). If this forecast pans out, it will mark the fifth consecutive year that jobs and economic growth in the franchise sector outpace the growth of non-franchised businesses.

"Year after year, franchising makes significant contributions to local communities and provides opportunities for individuals seeking a path toward business ownership," said IFA CEO Steve Caldeira.

NLRB Overreaches

"However, the recommendation by the NLRB's General Counsel, if it goes forward, will halt franchisee expansion and the jobs they create. Our economy simply cannot afford this ill-conceived and politically motivated ruling."

"The issue at hand is the amount of influence that a franchisor has on a franchisee's employees," said Catherine Monson, CEO of FASTSIGNS International, in a press release in March. "Franchisors provide the brand, systems, training and marketing to the franchisee through a legal agreement. The franchisee is then responsible for the hiring, wage rate, methods and timing of payment, HR processes, discipline, supervision, promotion, and direction of their employees."

The NLRB actions could wreak havoc on franchising—and severely diminish the economic benefit franchising brings to communities and the national economy.

Franchisees simply want to own and operate their own businesses as part of the American dream. Redefining "joint employer" threatens that dream and, no matter what the intent of the change, the ultimate losers may very well be the customers and employees of franchised businesses.

There's a lot on the line. To learn more about this issue and how you can get involved, visit www.franchise.org for the latest news from the IFA.

Consequences of the NLRB Joint Employer Rule for Franchisees

If the recommendation of the NLRB's General Counsel becomes a new interpretation of the law, franchisees would suffer the following consequences, according to the Job Creators Network.

You could lose your autonomy and independence	Franchisors provide important guardrails and support to a franchisee; however, the day-to-day employment decisions are made at the local level.
You could lose direct support from the franchisor	Franchisors could reduce or eliminate support from software programs that help with scheduling, compliance, payroll functions, labor and employment law, and other support under current franchise agreements.
You could essentially become a "general manager" to the franchisor	Franchisees didn't risk their life's savings to have the franchisor looking over their shoulder about day-to-day hiring decisions.
You indemnify the franchisor and are responsible for paying any fees or verdicts assessed to the franchisor	Franchisors will simply pass the costs of any verdicts or fees under joint employer back to the franchisee, taking money away from you to grow your business.
You could pay increased financial requirements to open a franchise, more expensive insurance, higher deductibles, and higher liquidity requirements	Franchisors will have to require more capital and insurance if they are going to be liable for the day-to-day decisions at the local level. This will choke off opportunities for new franchisees looking to open their first store.
You may have to pay increased franchise fees and have fewer franchise opportunities	Franchisors, facing more liability, would likely raise franchise licensing costs and reduce franchising opportunities for new or inexperienced entrepreneurs. Why take a chance on the little guy? Franchisors will open more corporate stores.
You may see a decrease in the valuation of your franchise	If the mistake of one franchisee could affect the entire franchise, the value of the business could be affected negatively.
You may see damage to your brand as a result of another franchise	Social media, national media, and word-of-mouth attacks on the national brand increase risks to local franchisees of employment litigation.

SOURCE: JOB CREATORS NETWORK

JOIN THE MOVEMENT

Franchise Action Network

A Strategic Initiative of the International Franchise Association

Are You a FAN?

Franchise businesses need to come together and speak with one, consistent, strong and collective voice on behalf of our great industry. IFA has launched the Franchise Action Network (FAN), to mobilize the franchise industry to be that voice. By joining the FAN, we will unite all of our voices within franchising with a strong message about the positive impacts of the franchise business model in every community across the country.

Make your voice heard and join in this fight by signing up for the FAN today!

www.FranchiseActionNetwork.com

If you have any questions about this new initiative, please do not hesitate to contact IFA's Senior Director, Political Affairs & Grassroots Advocacy, Erica Farage at efarage@franchise.org or 202-662-0760.

People BY STEVE ADAMS

Talent Management System Pays Off

Your *people* deliver the brand experience

For many years, our organization struggled to create a solid, stable team. We were guilty of hiring to fill spots rather than thinking of our people as guardians of our brand. We stepped back and decided to create a system. We started from scratch and asked, "What does the ideal employee look like?" Then we found a tool that profiles the work style of the employee.

The tool is not a personality test per se; it is an assessment of *work style*. We applied it to all our employees and found a consistent profile of our best employees. We were able to determine that when we were outside that profile, in general we had employees who did not fit well for us. In a sense, we were asking people who were "off profile" to work in a way that was inconsistent with who they were. Those people, in turn, tended to be the ones we had problems with, and they struggled the most to live out the brand.

Today, the hiring profile is a big part of our talent management system. We rarely hire anyone who doesn't meet the profile. Now it is hard to hire: we go through dozens of applications to hire one employee. Our managers complain about that. The good news is that when we *do* find someone, they almost always work out great, which reminds the managers why they went to such trouble. A by-product of this process is that the in-store culture is now so strong that we lose fewer people.

We also rank our employees A, B, or C. This is not a ranking of their value as a person; rather, it is ranking of *fit*. Our A employees are fully trained, have fully bought into the vision, and live it. Our B employees have fully bought into the vision and live it, but lack training and experience. Our C employees may be fully trained, but they lack buy-in and do not live the vision. When we identify Cs, we make plans to help them find a job somewhere else because they just do not fit. When someone doesn't fit, it is often because their internal wiring doesn't work well in retail.

The ranking system and profiling have helped us to avoid mismatching people in their jobs. Those whom we helped to leave—and we did it appropriately, we did not just kick them out—had a chance to find a better job where they would be a good fit.

In addition, we have an online, systematic hiring and intake process. This is nitty-gritty, but you have to do it well. There are many federal regulations on the documentation of new employees, and you must have a robust system for that. Then, we have a scripted training schedule for the first year—we know what we are going to do the first week, the first month, and from there on out.

> **"We feel that we have a vigorous and complete training program, and the payoff is a workforce who fit their roles and feel invested in their positions."**

The next level is the 30-day action plan. This mini-review between employee and supervisor leads to improvements, month by month. The idea came from a store manager, not come from on high in some ivory tower. As a result, all employees, down to the newest hire, know where they stand and what is expected. When we applied the system company-wide, morale improved.

We expect all employees to buy into our mission, including our young people, still in school. We do not hire just for the summer. We expect any high school students to train and develop and buy in, or they do not stay with us. We also hire people twice that age for entry-level jobs and look at them as great opportunities. For whatever reason, they have not found their niche yet. We have known such people who really caught fire while working for us. For the first time they felt that an employer was investing in them. Helping to develop employees was always fun for me. That happens at the store level, so I am not immediately involved in it anymore, but it is quite fulfilling to see someone thriving under our guidance.

To further develop our talent, we purchased a training program for our store managers on the importance of a positive, success-oriented mindset. They get monthly installments of that program, in printed materials and a CD. We also have our continuing leadership development program. As new people come in, we develop their ability to think like a leader. In addition, we have the pet nutrition certification for our store managers and assistant managers, and a nine-month, online, pet care training program.

We feel that we have a vigorous and complete training program, and the payoff is a workforce who fit their roles and feel invested in their positions. They are growing and they want to be with us. We hold people accountable, but we do not try to motivate through external rewards or the fear of being hurt or suffering consequences for failing. We aim to create an environment where people are on fire and motivated from within.

When you engage people at the heart level and they are excited, they give you so much more. They contribute a lot of new, exciting things and unique approaches to the business, and that is really what we want.

"We need all the brains in the game," Jack Welch, former chief executive of General Electric, once said, an expression we have borrowed. Our talent management system ensures that is what we have.

Steve Adams, *based in Muskegon, Mich., is a multi-unit franchisee with more than 20 Pet Supplies Plus stores across 4 states. Before that, he spent 15 years as a commercial loan officer assisting start-up and established companies in their growth plans. This is an excerpt from his book,* The Passionate Entrepreneur. *For more, visit passionateentrepreneur.com.*

AdIndex

What's Your Service Aptitude?

It's your job to teach employees how to treat customers

Companies don't engage emotionally with their customers—their employees do. If you want to create a memorable company, you must fill your company with memorable people. The level and quality of your organization's customer service comes down to one thing and one thing only: the Service Aptitude of every employee. From the CEO to the account executive, sales clerk, call center, receptionist, corporate office support team, to every front-line employee—the most critical component in building a world-class customer experience culture is the Service Aptitude of every individual in your company.

What is Service Aptitude?

Service Aptitude is a person's ability to recognize opportunities to exceed customers' expectations, regardless of the circumstances.

No one is born with it; it is not innate. The vast majority of the workforce has extremely low Service Aptitude, especially when they are entering the workforce. And, as a result of poor training and paranoid management, many employees, including management, don't have high Service Aptitude, even after years of work. And sadly, a high percentage of senior-level executives continues to have low Service Aptitude during their careers. Why is high Service Aptitude so rare? What dictates it, and what affects it?

1) Life experiences are a significant factor in people's Service Aptitude level, especially in the younger workforce. Front-line employees' standard of living typically does not afford them the opportunity to fly first class, stay at five-star resorts, drive a luxury automobile, or enjoy other higher-end experiences. Yet we, as managers, expect those same employees to be able to deliver world-class service to clients, guests, patients, or whomever we call our customers, who may be accustomed to these types of experiences. It doesn't make any sense.

2) Previous work experiences have a major impact on a person's Service Aptitude. It is a good bet that most of your front-line employees have previously worked for an average or less-than-average customer service company. This means that not only were they not trained on what excellent service looks like, they also were "brainwashed" by a policy-driven, iron-fisted manager who taught them that customers are out to take advantage of businesses.

3) Current work experiences dictate the state of an employee's Service Aptitude. Nearly every company states on paper, plaques, and its website how it has a customer-first philosophy, but how many really back that up? New employees typically get initial training on a company's operational processes—product knowledge, the fundamentals of the job, and so on—but very little if any customer service or soft-skill training is invested up front. Actions speak louder than words.

Beyond the Golden Rule

I love the Golden Rule: *Treat others the way you would like to be treated.* Let's consider my oldest son, Johnni. He is a junior at Ohio State University and the nicest young man you could ever meet. However, if you hired him today and threw him in a customer-facing, front-line position and told him to treat customers the way he likes to be treated, you would probably see him greet people with, "Hey, what's up, dude?" He may give them a fist bump, and you might have to ask him to pull up his sagging pants. He is a typical college student; this is what they do. It's how *they* like to be treated. Give him a few weeks of soft-skill training and he will be one of the most genuine, hospitable employees you have. For serving customers, it is the Platinum Rule we need to focus on: treating others the way *they* would like to be treated.

It isn't their fault

I have this sweet niece whom I bugged for years to come work for me. She has those qualities any business would love in an employee who comes in contact with customers: always smiling, very friendly, outgoing. We were celebrating a holiday at my house and I asked her what she was doing. She said she had been working at a restaurant as a hostess/receptionist and that one of her responsibilities was to police the restrooms. I said clean restrooms were very important to the image of the restaurant. She said, "No, that's not what I mean. My boss says it is my job to not let anyone use the restrooms unless they are paying customers." My eyes lit up. "Really?" I said. She replied, "Yes, we even have a sign on the door that says so. In fact, last week I saw someone who hadn't purchased anything headed to the restroom, so I ran after him and made him leave."

I was horrified! This is my sweet adorable niece. How could she think like this? You may be thinking how wrong I am about my niece being a wonderful employee. Actually, she may be too good of an employee. Her boss (sadly, the owner of the restaurant) told her, "Your job is to not let people take advantage of us." And she does what she is told, protecting the business as she has been instructed.

Each of us has employees who have worked elsewhere and have been influenced by other bosses who don't think like world-class customer service companies and leaders. They are more concerned that people are out to take advantage of them than they are about taking care of the customer.

It is not a new employee's responsibility to have high Service Aptitude; it is the company's job to teach it to them.

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New Chip on the Old Card

October deadline looming for EMV payment readers

As you go about your day-to-day routine, you may have noticed some new ways to pay. And if you received a new debit or credit card recently, you also may have noticed the new chip embedded in it.

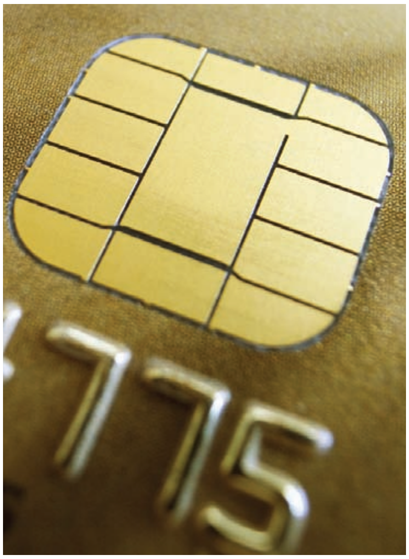
Grocery stores, coffee shops, pharmacies, and large national chains all seem to be installing new customer-facing devices to enter your credit and debit card information. For instance, you can now insert your card into a slot on the front of one of these new devices and enter a PIN. The device will read the *encrypted* information on your card's chip and pass that information, along with your PIN, to the card processor for decryption and authentication.

In essence, you are getting a double dose of security, unlike with a traditional swipe card, whose magnetic stripe data is easily read by any swiper in the event a physical card is stolen or lost. The chip in the new cards comes encrypted, making your data much harder to obtain for any would-be thief.

As the cards you currently have begin to expire, replacement cards all will have a chip in them, beginning this year. For a time, they still will have the magnetic stripe on the back, but in a few years that will stop completely. By the end of 2015, an estimated 29 percent of cards in the U.S. will have the chip, and the numbers will grow rapidly from there. All EBT and other government cards issued since the beginning of 2015 already have them.

Why should any of this matter to franchisees?

As of October 2015, all new cards issued and all installed terminals must have this capability (one exception is petroleum merchants with automated fuel pumps, who have until October 2017). To help prevent data breach and fraud, U.S. card issuers have adopted the EMV standard (Europay, MasterCard, and Visa) that has been in place in most of the rest of the world for years. For merchants who have not installed the proper hardware to read these cards by October, the liability for any potential breach will shift completely over to them. (Note: Installing the new hardware will *not* replace the need to continue meeting all your current PCI requirements.)



Make the *right* changes—not just a quick fix you will have to revisit in the not-too-distant future.

One of the things I often see with franchise systems is that they tend to run on limited resources, and many do not have a chief technology officer to keep these issues top of mind. Many franchise systems either don't require a specific type of payment terminal or they lean on a POS vendor to ensure everything is in place around payment technology and PCI compliance. Neither is a good approach, because there is so much more to the customer data security equation than what any single vendor looks at.

Most POS companies are scrambling to meet the October deadline. And even if you are on track to meet this deadline, questions remain. Do you have a plan in place to ensure you are installing the new hardware and/or software in time? Are there cost considerations preventing you from making the upgrades? Do you understand the reasons you need to do this? Maybe this is a good time to to review your POS system in general.

To succeed in this transition, you need a comprehensive strategy that includes not only your POS system, payment processing, and gift/loyalty vendors, but also your IT, operations, and maybe even finance. If you have not yet started this process you are already behind.

With all the new technology available today, perhaps now is a good time to move to one of the newer tablet-based systems. Most can be installed for about the same cost as upgrading your current POS.

If you have to upgrade your systems for EMV anyway, perhaps you should also look at adding NFC (near field communication). NFC is the technology that enables ApplePay, Google Wallet, and CurrentC. This technology is not really new, but Apple's entry into the game has breathed new life and interest into these payment methods. Consumers are increasingly adopting these methods—and of course the younger your customer base, the more likely they are to want to use this option.

My bottom-line advice to you is that time is getting short and you need to move on this quickly. But don't act rashly. Have a conversation with your department heads, trusted vendors, and FAC.

Since you must make changes anyway, make the *right* changes—those that will carry you years into the future, not just a quick fix you will have to revisit in the not-too-distant future. MUF

Tom Epstein *is CEO and founder of Franchise Payments Network, an electronic payments processing company dedicated to helping franchisors and their franchisees improve system performance, increase revenue, and reduce expenses. Contact him at tomepstein@franchisepayments.net or 866-420-4613 x1103.*

Finance BY ROD BRISTOL

Don't "Grow Broke"

Overcoming the dangers of poorly managed growth

Good news! The economy is growing again. However, expanding businesses are often in greater peril than those that have suffered through a challenging economy and declining revenues. The often misunderstood truth is that *it costs money to grow.*

Business owners who don't understand this end up fulfilling their higher sales dreams, but often at the cost of bankrupting their company. How can you prevent this? A great place to start is understanding the concept of "Financial Gap," the difference between the money you *have* and the money you *need* to grow.

Why does growth cost money?

As your sales grow, your company needs new assets to support those increased sales. By using the Financial Gap tool and calculating the present efficiency of your operation, you can predict with great accuracy what you will need in new assets to support increased sales. For most business owners, this is almost counter-intuitive. It is your increased sales—specifically buying the assets to support them—that causes you to run out of money while you are growing.

There are only four sources of money to grow a business:

1. New equity from the owner. This is not a popular choice! The object of most businesses is to get more money *out*, not put more money *in*.

2. Trade credit. These are the "free liabilities" from your vendors. The usual duration of such a happy arrangement is about 60 days. After that, this source of capital immediately dries up, and you are now on COD.

3. Retained earnings. Retained earnings are usually low because we hire an accountant to make them low so we don't have to pay taxes. It is the very rare company that has enough profits to support sustained growth in an expanding business.

4. The bank (leasing companies, credit cards, etc.). When a business owner comes to the bank to ask for a loan, the banker knows that you are *out!*

How much do you need to grow?

This begins with understanding the concept of "variable assets and liabilities" inside your company. As your sales grow, you need increased assets to support the increased sales. The two most common variable assets in most businesses are inventory and accounts receivable; and the most common variable liabilities are accounts payable.

Using "percent of sales" as the calculation process, you can quickly determine what you have in variable assets and liabilities to support your current level of sales. The next step is to understand that for every increased $1 in sales, you will need that same percentage of variable assets and liabilities to support that increased sales dollar if you are operating at the same level of efficiency as before.

> **"If your franchise network is in a growth mode now, be sure that you understand Financial Gap and have identified the sources of money to fund the growth."**

Using this process, you can quickly determine what will be required in assets and incurred in new liabilities to support your increased sales. When you total those numbers, the remaining balance is the "financial gap" that will be required from an outside funding source to support your increased sales.

The dangers of mismanaged growth

In our Profit Mastery case study examples, we start with a company that has just completed sales of $600,000 in the previous year and has a very strong balance sheet. We then project sales of $900,000, then up to $1.6 million in one year. We learn that if the company continues to operate at the same level of efficiency, the amount of bank debt required to fund the increased sales rises significantly. If sales increase to $900,000, the business will need $126,000 in additional funding, and if they "shoot the moon" and grow to $1.6 million in revenue the business will need $462,000 in new bank debt to fund it. Even more critical, the balance sheet of the company grows significantly weaker, substantially increasing the risk to the owners.

What makes the Financial Gap such a critically important and useful financial tool for business owners is that it takes very little time to do these calculations; and then you can do projections at various levels of sales to see what level of growth you could actually sustain with both your internal financing capabilities and your bank relationships.

We complete the case study by taking the $900,000 company and better managing the two most important variable assets—inventory and accounts receivable—and we are able to self-fund the growth through internal cash flow. We complete the case study with a balance sheet even stronger than it was at the $600,000 sales level, driving up revenue and profits and actually *reducing* risk to the owners.

Every business owner needs to understand and be able to implement this financial tool, especially if they are in a period of aggressive growth. If your franchise network is in a growth mode now, be sure that you understand Financial Gap and have identified the sources of money to fund the growth—and don't "grow broke."

Rod Bristol *is the senior vice president of Profit Mastery. He guides business networks from "Profit Mystery" to "Profit Mastery." For over 30 years, franchisors and franchisees have improved their financial performance by following the Profit Mastery process: financial training, performance benchmarking, and accountability/bankability modeling. Contact him at 800-488-3520 x13 or bristol@brs-seattle.com.*

Exit Strategies

BY DEAN ZUCCARELLO

Small Is Still Beautiful

Single-unit franchisees will survive

It seems we read about more and more franchise acquisitions every day, where one franchisee becomes larger by purchasing another. Franchisees seem to be growing ever greater in size, with fewer small franchisees in the marketplace. Is this really what's happening? And if so, why?

1) The franchise model. Franchising, created as a way for capital-intensive, multi-unit businesses to rapidly expand their reach, has been a common business practice for more than 50 years now. In that time it has provided a great opportunity for entrepreneurs seeking to operate an independent business, but not the risk associated with creating their own concept. The franchise model was perfect: operators were equipped with a formulated method to successfully operate and market their business *and* were able to own and run their own companies. Initially, most franchises were sold to individuals on a location-by-location basis. Larger territories were granted in some instances, but most franchisors elected to expand their concepts with single-location franchisees.

2) Evolution of the franchise model. As franchise concepts demonstrated success and became increasingly accepted as mainstream, it created a greater demand for more locations. Not only did this mean more franchisees were needed to maintain a growing franchise system, it also meant existing franchisees wanted to expand their own companies by operating more locations. While the replicable nature of most franchise concepts benefited franchisees by making it simpler to develop and manage additional locations, and the development of better managerial practices allowed operators to focus on more locations, financing remained a limiting factor. Through the early 1980s, many franchisees still relied heavily on personal financial resources and some form of very conservative bank financing to fund their growth. In the mid-1980s, we began to see an evolution of specialty franchise lenders that understood the franchise model and were willing to extend more aggressive levels of financing to facilitate rapid expansion. This was the start of the multi-unit franchise revolution.

3) Franchisee life cycle. Over the past few decades, many early stage franchisees began contemplating retirement. Many elected to cash in on their years of hard work and enjoy a profitable liquidity event. Others continued to grow, consolidate, and transition to future family generations, but this was not the norm. While the restaurant industry has been growing at an annual rate of 1 to 2 percent, the top 200 restaurant franchisees are growing by close to 20 to 30 percent annually, primarily through acquisitions. Unit-level economics and overall industry dynamics have also created an environment where efficiency through size is a must, making it more challenging for small and mid-sized franchisees to compete with their larger colleagues.

4) Who is becoming larger—and why. The franchisee groups that are growing dramatically have been able to attract outside equity capital to expand the base of their holdings. Historically, franchisees seeking to expand through acquisition resisted outside investors, instead using their own balance sheet equity, along with higher levels of leverage, to finance their acquisition activity. In many instances, they were "one and done," without enough capital to sustain any meaningful acquisition growth plan. Franchise companies that have seen success with a consistent growth model through acquisition have raised outside equity in sufficient amounts to facilitate their plans without relying solely on the limitations of their own equity and the availability of high leverage.

Why has the franchise segment become attractive to financial investors? For years, professional and institutional financial investors (private equity, family offices, and wealthy investors) were more interested in investing in franchisors rather than franchisees. They sought investments that provided total brand control and offered the possibility of high returns if they selected the right brand. This thinking still exists today, and brand-level investments are still highly sought after.

However, over the past 15 years we have seen a change in the way investors think about franchisees. At first, it was a small minority of private equity and institutional investors that embraced the notion of a franchisee investment. As interest rates declined and risk tolerance became more of a factor, many early stage professional investors recognized that they could achieve a nice, stable return by investing in a franchisee of a successful brand. With investors starting to desire the premiums of safety and stability from franchisees' consistent cash flows, it became less important to achieve a 30 percent return from every investment. Additionally, the risks were far less than trying to pick the right franchisor, which carried a much higher price of entry. Today we see larger private equity firms participating in the space with names like Apollo, Sentinel, and others investing at the franchisee level. With no shortage of investment capital, we see the trend of investing in franchisee businesses as bright.

5) The future. So what does this mean for the future of small franchisees? They won't completely disappear from the landscape, but the scenery will change. Many brands, such as service concepts, lend themselves to smaller, independent franchise ownership. These brands will provide the opportunities for future generations to own a small franchise business. Mature concepts and those requiring greater levels of capital and operational sophistication will continue to experience consolidation, with a reduced presence of the smaller franchisee. However, owning your own business remains the dream of many, one that will never cease to exist. As long as the demand is there, franchise opportunities will continue to be available for those looking for independence.

Dean Zuccarello *is CEO and founder of The Cypress Group, a privately owned investment bank and advisory services firm focused exclusively on the multi-unit and franchise business for 24 years. He has more than 30 years of financial and transactional experience in mergers, acquisitions, divestitures, strategic planning, and financing in the restaurant industry. Contact him at 303-680-4141 or dzuccarello@cypressgroup.biz.*

FranchiseMarketUpdate

BY DARRELL JOHNSON

Failed Units: Not Just a Franchisee Issue

Aligning interests benefits the whole system

Throughout my career I have observed that a strong alignment of interests between two business parties usually leads to good outcomes for both. All franchisors with any marketing savvy will say they are strongly aligned with their franchisees. What is the evidence that a brand walks the talk?

There are many ways a franchisor can help its franchisees, starting with a full and high-quality support program, and including a disciplined prospect screening program, training that measures results, site selection and opening assistance based on proven criteria, and field operations and compliance that are effective.

Then there's transparency. Brands that have a meaningful Item 19, that have system dashboards that compare unit performance in real time, that support capital access through SBA eligibility and Bank Credit Reports (BCRs), and that seek system feedback through independent third parties are further examples. Brands that "get it" tend to not only focus on these types of operational performance measures, but actively compare how they are doing against peers. At FRANdata, we benchmark best practices in these areas all the time.

In an absolute sense, all these indicators are aimed at a pretty simple concept: unit success or failure. Over the long term, the only reason a unit will stay in business is because it is profitable. While we tend to acknowledge the financial impact on franchisors of a failed unit, we rightfully focus mostly on the impact on the franchisee.

After all, for most single-unit franchisees the cost of a failed unit is absolute and often devastating. It can represent the loss of a business, the loss of most of a franchisee's personal net worth, the loss of their main source of income and job, the likely loss of other jobs, and the resulting impact on many families. For multi-unit franchisees, the cost of a failed unit usually isn't quite as devastating personally or financially, but it is real and negatively affects people.

The obvious impact on the franchisor is a loss of royalty revenue. A franchisor has made an "investment" in finding, training, and supporting a franchisee as well as assisting in siting and opening a new unit. In our comparative research on operations for brands, we have found that the sunk cost incurred by a franchisor varies widely and can be a significant multiple of the net fees obtained up front. Those up-front costs put unit breakeven for many franchisors more than two years out when compared with the unit royalty ramp-up.

> **"The rise in the loan failure bell curve starts after two years, about the time most franchisors have recovered their fixed costs and are beginning to realize a net return."**

We also have found that most new franchise units hit breakeven in a 12- to 24-month time frame, based on our BCR data. From many years of providing brand credit analysis for lenders, we also have tracked the time from funding to loan failure (loan failure and unit failure are correlated, but not as highly as is generally thought). The significant rise in the loan failure bell curve starts after two years, about the time most franchisors have recovered their fixed costs in a unit and are beginning to realize a net return. Put all this together and it certainly creates an alignment of interest between franchisors and franchisees.

However, this is a very limited and short-term assessment of the cost of a failed unit to the franchisor. An under-qualified franchisee prospect requires more support. A weak site selection program lengthens the time to unit breakeven. An underperforming unit takes more field support time. A struggling unit requires the time and attention of franchisor staff, and often management time. An underperforming franchisee almost always has an impact on other franchisees, often leading to system culture issues. A failed unit creates consumer brand perception issues, and a failed franchisee often creates negative social media and even traditional media issues.

Whether or not a franchisee fails, a closed unit is a big negative to the lending community. Just a few closures can result in lenders staying away from those brands. At the very least, it affects the terms lenders are willing to offer. Through our analysis of performance we have found that, when measured over enough time, a historical unit success rate serves as a good medium-term predictor of future performance outcomes. We are currently incorporating this metric in credit rating products for lenders and it is being well received.

This brings us back to the alignment of interests. Wouldn't brands that grasp a fuller concept of unit/success implications at all three levels—franchisor, system, and franchisee—be the brands that will have the most success? An important question that both prospective franchisees and multi-unit franchisees should ask is, Which brands exhibit the best understanding of this concept? Our research projects with franchisors are leading us to develop performance standards that measure the full cost of a failed unit and analysis of the causes. With such an understanding, franchisors should more efficiently allocate their human as well as financial resources. The result for franchising will be fewer failures, a stronger business model, and above-average brands with some serious marketing bragging rights.

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