Multi-Unit
Franchisee

Q1 | 2021

PIZZA-PRENEUR

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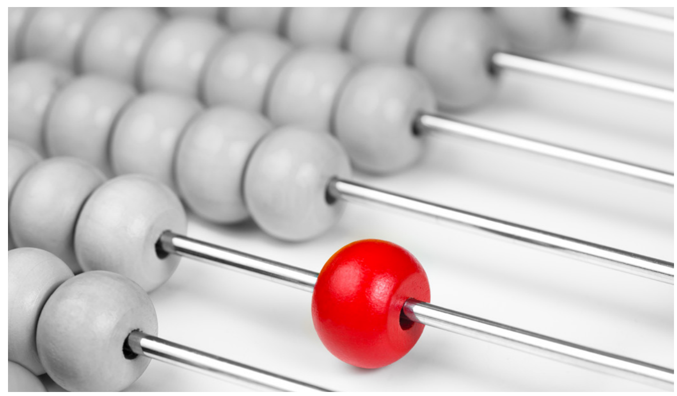

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Counting His Own Beans

Halfway to 100 with 3 brands

Written By **KERRY PIPES**

Luis San Miguel is halfway to his next big goal of operating 100 franchise units. The president and CEO of Fresh Dining Concepts oversees a total of 50 Auntie Anne's, Cinnabon, and Carvel locations across New York, Florida, and Pennsylvania.

At 61, San Miguel has a diverse business background and a successful history in franchising. He has been a financial manager and CFO, worked at Burger King Corp., been a Burger King franchisee, and is now a franchisee of Auntie Anne's, Cinnabon, and Carvel. His Coral Gables, Florida-based Fresh Dining Concepts is the third-largest Auntie Anne's operator in the country. Before becoming a franchisee with Auntie Anne's and Cinnabon, San Miguel was CEO of Toms King, a company with a portfolio of 58 Burger Kings and annual revenue of $70 million.

"I could have continued my career as a financial professional," he says of his early career. "But I developed a desire to lead an organization and not just count other people's beans but to create my own beans."

San Miguel was born in Cuba and emigrated to the U.S. with his family when he was 9. He overcame language and cultural barriers to graduate college and build a successful business career, at one point serving as CFO of a company with annual revenues of more than $700 million.

Coming off 2020 and the effects of the pandemic, San Miguel is looking forward to adding new units and growing third-party delivery and catering sales in 2021. He says he's happy with his three current brands and their solid unit-level economics, which is why he plans to keep his focus squarely on growing those brands.

Always looking for ways to improve, San Miguel says he wants to do a better job delegating authority to his team. "I value my team's opinions and seek to get their buy-in, but my tendency is to assume the lead on important matters."

Expect him to move aggressively through 2021 focusing on building sales, managing costs, and uncovering development opportunities with solid ROI potential on his way to 100.

PERSONAL

First job: Auditor with KPMG. Subsequent to that, I held various financial management positions with companies in various industries including technology, travel, and retail. Most notably, I worked at Burger King Corp. After that, I became a Burger King franchisee and subsequently an Auntie Anne's, Cinnabon, and Carvel franchisee.

Formative influences/events: I was born in Cuba and emigrated to the United States with my family when I was 9 years old. I still remember the challenge of learning a new language, which created struggles in school. I am grateful for the warm welcome my family and I received from the United States, and in particular, the community in Miami. I'm also grateful for the educational and professional opportunities made available to me. I received my college degree from Fordham University in New York. Living on my own in New York exposed me to multiple cultures and ethnicities and helped me develop my leadership and communication skills.

Key accomplishments: Becoming a father, completing an IPO on the Nasdaq.

Biggest current challenge: Finding high-quality development opportunities at reasonable prices to achieve ROI objectives.

Next big goal: Reaching 100 units (a doubling of current unit count).

First turning point in your career: Leaving KPMG was not a decision that I initiated, and it helped me realize that I needed to take charge of my career and not just rely on corporate processes for progression.

Best business decision: I had a successful career as a finance professional and CFO and completed a number of public and private equity and debt financings. I could have continued my career as a financial professional. But over the years I developed a


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LUIS SAN MIGUEL, 61

President, CEO

Company: Fresh Dining Concepts

Units: 40 Auntie Anne's, 2 Cinnabon, 6 co-branded Auntie Anne's/ Cinnabon, 2 co-branded Auntie Anne's/Carvel

Family: Wife, 2 sons, 1 granddaughter

Years in franchising: 10

Years in current position: 5

desire and confidence in my ability to lead the entirety of an organization and not just count other people's beans, but rather create my own beans. I decided to pursue franchising deals, which was very difficult in terms of finding quality deals and obtaining financing, but in the end I was able to achieve my goals.

Hardest lesson learned: My first franchise transaction was much greater in value than I anticipated. As a result, I partnered with a capital source I was unfamiliar with just to be able to complete the deal. That decision turned out to be a mistake as my partner and I did not have similar goals or perspectives and had to sever the partnership after little more than a year. Lesson learned: Take the time to know your prospective partners and don't be afraid to ask hard questions up front to ensure there is real common ground.

Work week: I'm in the office every weekday when I am not traveling because I believe interaction with my employees is very important. I am in contact with my management team as necessary during weekends.

Exercise/workout: I try to exercise 5 days a week, a combination of light weights, running, and core exercises. I also enjoy golf and skiing.

Best advice you ever got: "God grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference."

How do you balance life and work? Work is an important part of my life. It helps me use skills I have developed over the years as well as develop new skills. I enjoy the intellectual reward of overcoming challenges in the workplace.

Guilty pleasure: All sweet things, especially ice cream.

Favorite movie: "The Lion King."

What do most people not know about you? I enjoy singing and was a member of the choir in college.

What did you want to be when you grew up? A cowboy.

Last vacation: Skiing in Utah.

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

MANAGEMENT

Business philosophy: Assume responsibility and be accountable for your actions and inactions.

Management method or style: "Benevolent dictator." I am strong-willed, but I also value my team's opinions and seek to get their buy-in on conclusions I reach or decisions I make.

Greatest challenge: Delegating important decisions. I realize that delegating authority is an important part of developing my subordinates, but my tendency is to assume the lead on important matters.

How do others describe you? Energetic at all times, thorough in my review of others' work, and direct in my communications.

One thing I'm looking to do better: Bring more positivity to work, be more focused on gratitude for the blessings I have received and for the efforts of my colleagues.

How I give my team room to innovate and experiment: My operations team develops local marketing and promotional programs, as well as variable compensation programs for our store-based associates.

How close are you to operations? We have an excellent operations team. Our COO and directors have long tenure with the brands, and I rely on them for day-to-day operating decisions. As it relates to operations, my focus is on strategic matters such as building sales or long-term labor cost management.

What are the two most important things you rely on from your franchisor? Brand awareness and menu development. As a franchisee, we just don't have the capability or bandwidth to effectively address these important topics. However, all three of my franchisors are excellent partners in this regard.

What I need from vendors: I truly believe that to be successful, one must strive to achieve a "win-win" situation with one's vendors. In that regard, I always try to achieve the proper balance between price and service. I am a loyal customer to those vendors able to deliver the best goods and services at a competitive price. I am not interested in being the "loss leader" for any of my vendors.

Have you changed your marketing strategy in response to the economy? How? Yes. We have begun to invest in digital marketing as a means of increasing awareness for our third-party delivery and catering capabilities. In this regard, we have effectively piggybacked on the efforts of Auntie Anne's, Cinnabon, and Carvel.

How do you train and retain? The bulk of our training is hands-on with direct supervision. This is true at the store level as well as for the administrative staff. At the store level, we also leverage operational e-learning modules developed by Auntie Anne's and Cinnabon to ensure we are executing brand standards and making delicious products our guests know and love and have come to expect from our brands.

How do you deal with problem employees? I believe in proper coaching and continuous feedback for all employees. We will always try to develop an employee who is struggling, and will tend to give them more opportunities if they demonstrate sincere effort in improving. Having said that, there is a limit to our attempts to improve performance.

Fastest way into my doghouse: Indifference, lack of effort or commitment.

COVID-19

What are the biggest impacts of Covid-19 on your business? All mall-based businesses are obviously struggling with

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decreased foot traffic, but I see this issue as one that will be overcome with the development of new drugs and treatments in the near future. I believe our biggest long-term issue is on the labor side. We are having a very difficult time attracting and retaining crew members. This is probably due to a number of factors, including the virus and the negative impact that the government's stimulus and unemployment subsidies have had on our ability to compete for people.

How have you responded? We have revised our way of operating to rely on fewer crew hours than before. It is very difficult to achieve greater labor efficiency, especially with all the new health requirements, so we are also testing self-order kiosks and promoting ordering through our mobile platforms to increase efficiency on the order side.

What changes do you think will be permanent? Regardless of government mandates, attention to healthy practices and cleanliness is here to stay and rightfully so. This is an area where I think Auntie Anne's, Cinnabon, and Carvel have always been leaders; cleanliness has always been a top priority for these brands.

BOTTOM LINE

Annual revenue: $40 million-plus.

2021 goals: Increase unit count by 20 units, grow third-party delivery and catering sales to 5% of total sales.

Do you have brands in different segments? Why/why not? At our current size, we find that we are better off leveraging our operations knowledge base in the concepts we already know. The unit-level economics for the brands we operate also make a compelling case to "stay in our lane."

Are you experiencing economic growth in your markets? We operate exclusively in malls. As a result, all of our stores were closed for at least a two-month period. In the case of our Metro NYC stores, we were closed for up to five months. Having a geographically diverse group of stores allowed us to start reopening and generating sales sooner rather than later. However, there were no practical growth opportunities during the closure period or in the immediately subsequent months as sales were down significantly. In addition, many of our crew members are students who still live with their parents. Rehiring and sourcing new crew members has been difficult because in many cases the parents are concerned about the health implications of their children going back to work, which has limited our ability to quickly reopen stores.

How do you forecast for your business? Anyone experienced in the direct-to-consumer retail business will tell you that trying to forecast customer behavior is impossible. People's behavior can change erratically from one day to another. So we forecast in monthly periods, which tends to smooth out day-to-day variability in customer behavior.

What are the best sources for capital expansion? Our capital partners have always been private equity firms. We are able to leverage their financial connections and expertise and appreciate the discipline they have in evaluating growth opportunities.

How do you reward/recognize top-performing employees? We are always trying to identify the best-performing employees with the intent of creating opportunities for their promotion and advancement. We have many examples of crew members who later became store managers. One of our regional directors was initially a store manager. We also run periodic contests that provide bonus opportunities and recognition in our quarterly company newsletter.

What kind of exit strategy do you have in place? For me personally, the best exit strategy is to have an effective and competent management team that makes me expendable, and I think we already have that in place. Having said that, I enjoy what I do and don't have any near-term exit plans. ■

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A Passion for Learning

From public school teacher to award-wining franchisee

Written By **KERRY PIPES**

LYNN ANN ZAZZALI, 45

Owner

Company: The Learning Experience

Units: 8 (5 open, 3 under construction)

Family: Two children, Daniella 15, Nicholas, 17

Years in franchising: 13

Years in current position: 13

It's easy to see that Lynn Ann Zazzali is passionate about education. She spent the first part of her career as a public school teacher in New Jersey and was on track to become a principal. But things changed when she became a mom and needed childcare for her own two children.

"I visited a handful of childcare centers and felt more and more nervous during each tour," she says. "I kept thinking about leaving my children with people I didn't know. I had the same fears that most parents experience. What if they are sad? Will they be loved? Safe? Will they be happy?"

When she spoke with her parents about her feelings they suggested she open her own childcare center. She says her initial response was, "No way. How could I own a business?" But the more she thought about it, the more intrigued she became. So she researched childcare franchises, visited websites, made phone calls, and set up in-person meetings. She says that when she met Michael Weissman, founder of The Learning Experience, she knew it was the right fit. The brand is geared to early education for children 6 weeks to 6 years old.

She signed on with The Learning Experience and thought what better way to kick things off than to enroll her own two children at her town's location. Two years later, in 2008, she opened her first location in Waldwick, N.J.

Today she operates five locations of the brand (Waldwick and Hoboken, N.J., New Rochelle and Dobbs Ferry, N.Y., and Stamford, Conn.), and has three more under construction (White Plains and Briarcliff Manor, N.Y., and Summit, N.J.).

Zazzali has excelled as a multi-unit operator. Each of her centers has received the Center of Excellence Award every year since opening, and she has earned major awards from The Learning Experience, including its Leadership Award and its highest honor for its top-performing center nationwide, the Chairman's Award.

"Being a mom, a former teacher, and a multi-unit franchisee with The Learning Experience, I know firsthand the importance of providing our children with a nurturing and responsive environment to support their learning and development and prepare them for future academic success," she says. "I'm thrilled to be bringing my passion and experience in providing great childcare and an exceptional early learning curriculum to children and families in our communities."

PERSONAL

First job: Dance teacher.

Formative influences/events: My father has always been my biggest advocate, encouraging me to be the best version of myself. He planted the seed about opening my own childcare center and encouraged me to take a leap of faith and start my own business. My parents' love and support have been the strong foundation I needed to pursue success and start a business from scratch.

Key accomplishments: My biggest accomplishment is being the mom of two amazing children. In my professional career, I have been honored to earn prestigious awards year over year at The Learning Experience's national convention. These awards include the Chairman's Award, Center of Excellence, Center of Excellence Elite, and Leadership Award. In addition, I've been on ABC news to showcase our relationship with the Make-A-Wish Foundation and featured on 1010 WINS (a NYC all-news radio station) as one of their weekly Difference Makers.

Biggest current challenge: This is an easy answer. I never imagined living in today's world. No one ever anticipated Covid-19. I had to dig deep to get through this time with the mindset to come out of it stronger than when I went in, nothing less. These are unprecedented times, a time where there is no previous year to compare it to. As a multi-unit business owner, this uncertain time has afforded me the opportunity to strengthen my leadership skills and realign my team to share in our vision and core values.

Next big goal: My goal is to successfully open the next three centers currently under development (White Plains and Briarcliff Manor N.Y., and Summit, N.J.) and operate every center at the prestigious "Center of Excellence Elite" status level. I hope to create a home away from home with the *best* possible early childhood program for each community we serve.

First turning point in your career: Acquiring my second location in Hoboken shifted my mindset from one center toward growth. I quickly learned that anything is possible. This was the turning point in my career. Making the decision to open my second center was life-changing and allowed me to see life outside the four walls of one location. I discovered strengths I never knew I had and a passion I never knew existed.

Best business decision: Committing to the importance of building lifelong relationships with every member of our TLE family, no matter how big or small. I value people. When making decisions my team and I always put the best interest of the children first. Our little learners mean the world to us and we pride ourselves in providing the best possible care for our families, a home away from home. We treat every child as if they were our own. After all, we are one TLE family.

Hardest lesson learned: Trust with skepticism. Giving others the benefit of the doubt, seeing the good in others, and having a positive attitude has always been my strength. Over the years I've learned to keep that positive mindset, but make sure I keep my boundaries as a way to protect myself from disappointment. I've learned to appreciate things for what they are and have gratitude for everything and everyone in my life.

Workweek: I am available 24/7 and pride myself on being a hands-on owner. Being present and visible is paramount in the early childhood field and something I value deeply.

Exercise/workout: I work out every morning, seven days a week, and haven't missed a day in six months. Living a healthy lifestyle decreases the amount of stress in my life, giving me an outlet. During a challenging workout my mind is focused on the present rather than the minute aspects of the day, week, or year. Meditation has given me an open mindset to focus on the positive and set myself up for success. Even just 10 minutes goes a long way.

Best advice you ever got: The most valuable advice I've received is to continuously strive to be the best version of myself, always learning and growing professionally and personally. I've always loved this quote attributed to Benjamin Mays, "The tragedy of life is not found in failure but complacency. Not in you doing too much, but doing too little. Not in you living above your means, but below your capacity. It's not failure, but aiming too low that is life's greatest tragedy."

What's your passion in business? I am passionate about my field of early childhood. I've been an educator for more than 25 years, and in those years I have looked forward to going to work every day. I breathe, eat, and sleep education. Luckily, I was pleasantly surprised to learn a new personal passion: I am driven by the growth of my centers, month over month and year over year. How lucky am I? I have the opportunity to live my passion for education on a daily basis by shaping the lives of our students while growing each individual center, as well as acquiring new locations. I am able to foster my love of business as much as my passion for education.

How do you balance life and work? My children and loved ones are my priority, the reason behind my success. Being a mom means the world to me. In doing so, everything else falls into place. My children see how passionate and diligent I am about my profession and they support me as much as I support them. In my world, one can't exist without the other. Not only am I blessed to have two supportive children, but the undeniable support of my significant other, my soulmate.

Guilty pleasure: I am obsessed with all things water. I am a total beach girl and could spend an entire day in the ocean. And, if I may have two guilty pleasures, I eat ice cream every night.

Favorite book: *The Giving Tree* by Shel Silverstein.

Favorite movie: "The Notebook."

What do most people not know about you? I decided to pursue my master's degree in reading because I struggled in school with reading for as long as I can remember. I remember dreading when the teacher went around the room and made us read aloud from our textbook. I used to count out the paragraphs so I could practice mine before it was my turn. My heart would start racing. My palms would get sweaty. I'd practice and practice until it was my turn. There was one major problem. I was so busy practicing for my turn that I didn't learn one thing. At an early age, I learned the importance of building confidence in children and making sure children learn at their level. I made a personal promise to ignite a passion for reading and learning, not fear of it.

Pet peeve: Dishonesty is the worst! My dad taught me at an early age to always tell the truth because it's so much easier. I never have to remember what to say!

What did you want to be when you grew up? I've always wanted to be a teacher for as long as I can remember.

Last vacation: Because of quarantining restrictions, Montauk Beach, with my better half!

Person I'd most like to have lunch with: I'd love to have lunch with my children, family, and the love of my life!

MANAGEMENT

Business philosophy: "Success is not the key to happiness. Happiness is the key to success. If you love what you are doing, you will be successful." (Albert Schweitzer)

Management method or style: With an empathetic mindset, I lead by example. I try to understand where my team is coming from, see the world through their eyes, and value each person's worth. What I give out is what I get back.

Greatest challenge: I have a big heart and have to be mindful of not giving too much of myself.

How do others describe you? I've been told I am driven, focused on the needs of each member of The Learning Experience family, and an amazing mom to my two children. It's not easy to say "good things" about myself, but I am often told that I have a huge heart. I am a clear communicator of expectations and goals. I encourage others to be the best version of themselves and continuously strive for improvement. I'm dedicated to my team and vested in their success.

One thing I'm looking to do better: I continuously look for ways to improve both professionally and personally.

How I give my team room to innovate and experiment: Over the years I've learned not to micromanage my team. It was hard for me to let go of being the "face" of each center I opened. Waldwick was my very first location. I was there open to close, from 6:30 a.m. to 6:30 p.m. every day. It was my baby. I knew that if I wanted to keep going, growing into multiple locations, I had to have faith in my team and strengthen my leadership skills. As a result, my support helped them to grow into successful leaders. My leadership team is my rock. I clearly articulate their roles, set reasonable KPIs, and hold them accountable. I give them the expected outcome and they develop the strategy to get there. I am committed to helping them grow creatively and with optimum innovation.

How close are you to operations? I am close to the operations of my centers.

What are the two most important things you rely on from your franchisor? I am lucky to have an amazing franchisor that is as committed to my centers' success as much as I am. The two most important things I rely on them for are innovative ideas in early childhood, and support to help my business continuously grow year over year.

What I need from vendors: Our vendors are our long-term partners in business and contribute greatly to our success. Dependability, consistency, and quality are hard to find, but valued.

Have you changed your marketing strategy in response to the economy? How? Yes! We shifted our spending from digital to social campaigns and have seen a significant ROI.

How is social media affecting your business? It's been impressive. Social posts show potential families our health and safety focus in action with real-life examples. We've also been able to share our proprietary curriculum and everything we have to offer our little learners and their families. Social media allows potential leads and current TLE families the opportunity to virtually experience the happiness that takes place within our four walls.

How do you hire and fire? We invest in our people. Each candidate is carefully screened and interviewed to ensure they are aligned with TLE's core values. Hiring is a process that we carefully and artfully implement to ensure we have the best team. With this philosophy we minimize the need for employment terminations.

How do you train and retain? Each team member is invited to become a member of our proprietary Bubbles Institute of Learning where they can earn professional development hours based on cutting-edge early childhood pedagogy. In addition, our onboarding process is comprehensive. Every new team member is matched to a mentor, an experienced and stellar teacher committed to their success, assisting and supporting them as a new TLE teacher. Also, our director of curriculum provides each new team member with on-site training and support. Team members participate in a 90-day initial training period, and we firmly believe their success is ours.

How do you deal with problem employees? Open communication and transparency are essential to us. Team members undergo two unannounced classroom observations conducted by our director of curriculum. Teachers are given areas for improvement with strategies to help them make progress. We discuss their strengths and encourage them to develop self-created areas for improvement. As a team, we are committed to every team member's success.

Fastest way into my doghouse: Every decision we make has the best interest of children in mind. When decisions are made outside of this notion, it goes against our philosophy.

COVID-19

What are the biggest impacts of Covid-19 on your business? The biggest impact is our inability to allow parents into our center. We take great pride in our open-door policy. These are challenging times for many families with job loss, working from home, and keeping everyone healthy. Not being able to walk their child to their classroom, speak face-to-face with a teacher, or kiss their child goodbye in the classroom is a huge challenge. Parents have loved walking through our doors, seeing so many smiling faces, and feeling like they are at their home away from home. At this time, for everyone's health, we had to put it on hold.

How have you responded? By being available for our families and supporting them during this unprecedented time. We offer FaceTime and Zoom calls with our moms and dads so they can have peace of mind that their little ones are smiling, learning, and thriving at The Learning Experience. Each parent has access to TLE's proprietary app, a heartwarming tool for moms and dads, especially in today's world. Pictures are sent through the app so parents can see all of the learning and love that takes place during the day. In addition, information such as meals, sleep, and potty times are accessible as well. Even though it's not face-to-face, it's the next best thing and provides peace of mind for all of us.

BOTTOM LINE

2021 goals: Continuing on a steady growth trajectory. We have experienced 35% or more growth with new centers year over year and anticipate that to continue. Of course, there is still uncertainty surrounding Covid. However, we have been able to successfully mitigate the risks and challenges associated with the pandemic and will continue to do so.

Growth meter: How do you measure your growth? Year-over-year revenue increase with at least a 3% or more increase for mature centers. Also, family retention with minimum drops other than aging out shows me a positive growth trajectory.

Vision meter: Where do you want to be in 5 years? 10 years? In 5 to 10 years, my goal is for each center to be at or above 85% capacity with a favorable profit margin. If an opportunity for additional locations presents itself, I am open to the idea of acquiring new locations if they make sense for my team in regard to demographics and geography.

How is the economy in your regions affecting you, your employees, your customers? There certainly is no individual or organization that has not been affected by the Covid-19 pandemic. Thankfully, however, through our efforts to serve the families of essential workers, adjust and communicate our health and safety protocols to our parents, and support families affected by government-mandated closures with tools and resources for learning and development, my team has been able to successfully navigate this unprecedented time. We continue to pride ourselves on our strict health and safety protocols.

Are you experiencing economic growth in your markets? Again, we are in unprecedented times and meeting the challenges as they arise. With the systems and protocols now in place, we have been able to successfully navigate the challenges the pandemic has presented to my team and continue to serve our communities. We know that childcare continues to be essential in getting our economy up and running again and our families back to work.

How do changes in the economy affect the way you do business? Employment for parents in our community has affected the need for childcare. As states go to the next phase of opening, our enrollment has increased.

How do you forecast for your business? We forecast based on our lead tours and registrations for each month. Each new family registration gives a projected start date, and based on those we can forecast where we will be in each future month. Historical data from previous years is also used to gauge KPIs for each center. Our center leaders use this data to establish reachable goals each month and each year.

What are the best sources for capital expansion? Up until recently, I have not used sources for capital expansion other than personal capital. With the rate I am expanding, I have recently researched lending options.

Experience with private equity, local banks, national banks, other institutions? Why/why not? Based on my recent experience in switching banks, I've learned that the number-one thing to look for is personalized service. The ability to speak with the same live person is extremely important. You want a bank that provides a boutique feel, even if you are one of many clients. So find a bank that values your service and offers incentives like low interest rates, a line of credit, and money markets.

What are you doing to take care of your employees? Our team of dedicated educators is incredibly important to us. Together, we are a family. Families celebrate each other's success, support each other in times of need, and help one another grow to reach their highest potential. Our team earns bonuses based on KPIs, and engages in monthly evaluations and formal yearly reviews. Communication is open and our staff know what is expected of them, what they need to work on, and where they are excelling. Stellar performance is rewarded. During this trying time, we continue to uphold the highest levels of respect for our team members and go above and beyond to show them how much we appreciate them. It's the smallest gestures that matter the most—like a kind note, center lunch or breakfast, celebrating birthdays, engagements, anniversaries, and so much more that create the positive culture most of us hope to experience in the workplace. There's that saying, "It's not where you work but who you work for."

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? We are not doing much differently. We continue to drive enrollment and reach high enrollment by offering the best possible care for children. We are keeping our payroll costs down by effectively scheduling our staff and also by converting leads to enrollment. Keeping our enrollment up is offsetting any additional costs.

What laws and regulations are affecting your business and how are you dealing with this? Right now our centers are affected by regulations limiting the number of children allowed in each classroom. We are limiting classroom sizes and opening new classes when needed.

How do you reward/recognize top-performing employees? Every year we hold an annual End of Year Awards Dinner. Our top-performing teachers are acknowledged: Teacher of the Year, Leadership Award, Shining Stars, and Rising Stars. Each month we recognize a teacher who goes above and beyond with the coveted Teacher of the Month Award. This creates so much excitement and anticipation. Most of all, it is heartwarming to see the winners cheered on by their colleagues. Likewise, we recognize our top-performing directors quarterly with a bonus structure based on enrollment and payroll expense. Again, KPIs and open communication regarding our success is continuous and consistent. ■

PIZZA-PRENEUR

At 35, already a 15-year franchisee

Written By **KERRY PIPES**

ROBBY BASATI, 35

CEO

Company: RoboFran Development

Units: 15 Mountain Mike's Pizza; 2 branded gas stations; 1 Neighborhood supermarket; 8 development agent stores for Mountain Mike's with 4 new ones in development and 3 in the pipeline for 2021

Family: Wife and 2 beautiful daughters, 2 and 6

Years in franchising: 15

Years in current position: 15

One of Robby Basati's friends used to drive a delivery car for Mountain Mike's Pizza. That's how Basati first learned of the brand famous for its curly pepperoni with a kick. And when he first tasted the product in 2003, he was hooked. Today, he operates 15 Mountain Mike's locations and employs more than 300 people in California's Central Valley, Monterey Coast, and Inland Empire areas.

Basati was born in San Jose, the son of Indian immigrants who came to America in 1979. He attended San Jose State University and was still a student there when, at age 20, he purchased his first Mountain Mike's location in Hollister, about an hour south. That was in 2007, just before the Great Recession.

It was a rough start for Basati. "We almost went under a few times but we kept at it," he recalls. He made it through, and when the economy eventually turned positive he purchased his second location in nearby Prunedale in 2014. It was rapid growth from there on. Seaside, Salinas, the Central Valley, and the Inland Empire quickly became a part of the young entrepreneur's growing portfolio and, he says, "We embraced each store and its community."

Basati loves being a Mountain Mike's franchisee. He's currently the development agent for 8 stores, and has 4 more stores of his own in the development pipeline. But he's not just a pizza guy, he has other diverse business interests as well. He also operates a couple of gas stations and a neighborhood market.

Like other dine-in restaurant operators, Basati's business was severely affected by the Covid-19 pandemic in 2020. He had to close dining rooms, and even when they could reopen, it was at a fraction of capacity. Fortunately, he already offered carryout and delivery service, which turned out to be lifesavers, helping him keep his doors open and his employees working. Still, he says, "We can't wait until the day where the dine-in component of our business returns."

At the dawn of 2021, Basati says he'd like to open another 6 Mountain Mike's Pizza locations this year, grow his current store sales by 12%, and look for another investment opportunity outside the pizza business.

Basati, at just 35, will find many more business opportunities lie ahead.

PERSONAL

First job: Clerk at Orchard Supply Hardware.

Formative influences/events: The Recession of 2008–2009.

Key accomplishments: Having the ability to set up platforms where people I love can succeed.

Biggest current challenge: There are three big challenges I'm currently dealing with: access to funding, rapid growth, and employee turnover.

Next big goal: Continuing to grow across the state of California while also carefully diversifying our portfolio to mitigate risk.

First turning point in your career: Signing the lease to my second Mountain Mike's Pizza location!

Best business decision: Hiring my vice president of business development, Amber Johnson.

Work week: Because of our large growth phase in opening new stores, we continue to work at least 60 to 70 hours a week.

Exercise/workout: I try to work out at least 3 to 4 days a week for an hour.

Best advice you ever got: This quote was not necessarily advice given to me, but it does resonate! "If you work really hard, and you're kind, amazing things will happen." (Conan O'Brien)

What's your passion in business? I'm passionate about working closely with my team. I want to see them grow, succeed in their lives, and I look forward to seeing what we can accomplish together.

How do you balance life and work? This can be challenging. However, my family is a huge priority for me. I strongly believe that my kids deserve my quality time, and I make sure I'm able to give them just that.

Guilty pleasure: There's nothing better than occasionally indulging in a nice Scotch.

Favorite book: *Shoe Dog* by Phil Knight.

Favorite movie: "The Pursuit of Happyness."

What do most people not know about you? I really enjoy my alone time.

Pet peeve: I really hate when people litter.

What did you want to be when you grew up? A tow truck driver.

Last vacation: San Diego, California.

Person I'd most like to have lunch with: Conan O'Brien.

MANAGEMENT

Business philosophy: I am inspired by, as well as implement with my team, the leadership philosophy of Tony Hsieh, the founder of Zappos, which is about empowering employees. When someone within a leadership role focuses on happiness as a common denominator, that will then extend its effects to employees and then to customers.

Management method or style: I like to be hands-off with my employees.

One thing I'm looking to do better: I wish I were able to avoid getting distracted so easily.

How I give my team room to innovate and experiment: Giving them the ability to be open and honest is so important to me. I make sure I hear their thoughts and opinions and encourage them to say what they honestly think and feel.

How close are you to operations? Remarkably close. I am involved in all operational strategic decision-making.

What are the two most important things you rely on from your franchisor? Support and understanding. Our franchise support center is amazing. They're always available if I ever need anything, and they've truly gone above and beyond to make my life easier as a franchisee, especially with how quickly I've built my locations.

What I need from vendors: Consistency. With multiple locations across California, I want to make sure an experience a guest has at one location can be had at every location, especially with the quality of our product.

How is social media affecting your business? It allows us to be open and transparent with our guests and what we want to convey without any issues.

How do you hire and fire? In the traditional way, interviewing one-on-one and picking our candidates following that steady stream of interviews. Terminating is tough, but we give corrective actions and retrain where needed, and if there is no result visible we must part ways.

How do you train and retain? On-the-job shadowing with an existing crew member. When you follow someone who knows how to do the job, it makes having to retrain any employees less likely down the road. We have found that providing this during the initial training phase actually matters to our employees.

How do you deal with problem employees? If we see any employee being problematic, we implement corrective actions and monitor them closely to ensure they course correct.

Fastest way into my doghouse: Dishonesty.

COVID-19

What are the biggest impacts of Covid-19 on your business? Mountain Mike's is known for its inviting, family-friendly atmosphere. So as a restaurant that focuses on entertaining the whole family, a local sports team, or a group of co-workers, losing the dine-in component of our business has brought on financial strain, and our ambience has changed significantly because our dining rooms are closed. We can't wait for the day where the dine-in component of our business returns.

How have you responded? Since the beginning of the pandemic, our franchise support center has been providing us with the tools we need to get through these unprecedented times. We continue to put the safety of guests and staff at the forefront of everything we do. To ensure that our guests feel confident about their experience, in addition to adhering to the strictest health and safety guidelines set by the state and the CDC (such as employees wearing masks and gloves), our dining rooms have been temporarily closed in counties that are currently in the "purple tier," which restricts indoor dining. Previously, when our dining rooms were opened with limited capacity, sections of our dining rooms were blocked off to create physical distancing.

What changes do you think will be permanent? Time will tell!

BOTTOM LINE

Annual revenue: $15 million (Mountain Mike's only).

2021 goals: Open 6 more Mountain Mike's Pizza locations. Grow store sales at each of my Mountain Mike's by at least 12%.

And I'd like to venture into something new other than restaurants!

Growth meter: How do you measure your growth? I'm able to successfully see the growth of my business through my team members and my business expansion efforts.

Vision meter: Where do you want to be in 5 years? In 5 years, I hope my crew is happy and all my locations are doing well.

Do you have brands in different segments? Why/why not? Yes, because I enjoy it! It helps me diversify my portfolio and it's nice to be able to pivot from one segment to another.

Are you experiencing economic growth in your markets? Aside from the impact we've experienced from the pandemic, we have done very well. Thankfully, a large portion of our business is carryout and delivery, so we've been able to focus 100% on those areas.

How do changes in the economy affect the way you do business? Changes in the economy do not affect the way I run my businesses. Since the beginning, I've used the tools I have learned over the years, and I routinely apply them in areas that need to be adjusted.

How do you forecast for your business? Looking at both the previous weekly and monthly revenues, because annually they have drastically changed because of Covid. We can no longer compare with previous years since a large component of our business (dine-in) has been affected.

What are the best sources for capital expansion? Growth! Growing my businesses, whether through third-party delivery implementation, focusing on local store marketing, or working closely with the brand's public relations firm for new store openings and systemwide initiatives—and expecting operational excellence from everyone.

What are you doing to take care of your employees? Every one of my employees is provided with the opportunity to grow, and it's been a pleasure to see them do well.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? We try to control costs at every level, as well as use new innovative tools.

What laws and regulations are affecting your business and how are you dealing with this? We've been around for more than 40 years, which means guests know our product well and love us. Having a great product to lean on has helped significantly, but with Covid having eliminated the dine-in component of our business model it has been difficult. But we're continuing to push our carryout and delivery programs so our guests can receive a quality product they love.

How do you reward/recognize top-performing employees? Compensation and added benefits. ■

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SMALL-TOWN OPERATOR GROWS BIG

10 units opened in 2020 with 8 more on the way

Written By **KERRY PIPES**

Covid-19 had a silver lining for Sajib Singha. The Texas-based restaurant operator saw revenue for his 5 brands grow by 20 to 30 percent in 2020. That wasn't all: the 39-year-old also managed to open a new restaurant nearly every month last year. "We are very blessed to have drive-thrus at most of our units and to be in the fast casual segment," he says.

No one can question Singha's work ethic. He's proud to say that he's always worked two jobs. Early in his career, he was working part-time at JPMorgan Chase Bank while also working full-time for KFC. He climbed the ladder from shift manager to operational manager at the chicken brand during a decade of learning the ins and outs of franchising. In 2012, he signed on for his own Golden Chick restaurant.

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SAJIB SINGHA, 39

Multi-brand franchisee

Company: Singha Group of Companies

Units: 8 Dairy Queen, 2 Captain D's (plus 2 in development), 2 Golden Chick, 2 Papa John's, 1 Schlotzsky's

Family: Wife Aparna Dey, two sons 4½ and 1½; my brother-in-law, mother, and mother-in-law also live with us

Years in franchising: 10

Years in current position: 10

"The transition was hard at first, giving away part of my income to invest in my own dream," he recalls. But he had a knack for operating restaurants and began his growth trajectory. Today his Singha Group of Companies operates 8 Dairy Queens, 2 Captain D's (with 2 more in development), 2 Golden Chicks, 2 Papa John's, and 1 Schlotzsky's.

Small towns in Texas are Singha's bread and butter. When he added Captain D's to his portfolio last year, he opened locations in Bonham and Mount Pleasant. "We are planning to remodel a Jack in the Box in Gun Barrel City and convert it into a Captain D's," he says. Late last year he executed an area development agreement with Fazoli's to open 3 locations, with the first slated to open in the second half of 2021. And he says there's more to come: he expects to continue opening and operating locations in small towns across Texas over the next several years.

Though he's planning to open additional units among all his brands in 2021, he tempers his ambitions with a simple analogy. "When you still have food on the plate, don't go back to the buffet," he says. "I opened 10 restaurants in 2020 and plan to open 8 more in 2021. While I'm fortunate to experience success, I need to pace myself when it comes to new development. Growth is tough, but even harder to sustain."

PERSONAL

First job: My first job in franchising was with KFC. I was with the company for 12 years and worked my way up from shift manager to general manager.

Formative influences/events: My self-driven tireless work ethic and determination have had a huge influence on our growth. Additionally, I am grateful to Yum Brands for giving me my start on this path. That initial position allowed me to raise funds and invest so that I could have enough working capital to build my franchise network today.

Key accomplishments: When I officially got into being a franchise owner at Golden Chick. I purchased a resale unit and gathered some business partners to assemble a team. I am a restaurant owner at heart and had the motivation to build that one unit into 8 Golden Chicks, which turned into an opportunity with additional real estate investments. Now our network has about 15 units focusing on small towns across Texas.

Biggest current challenge: Because of the pandemic people aren't dining in as much. But we are very blessed to have drive-thrus, and we take advantage of them as much as we can.

Next big goal: Building up my franchise network in 2021! My company focuses on development across Texas. I recently added Captain D's to my portfolio and opened two new locations, in Bonham and Mount Pleasant within just four months of each other. Next, my business partners and I are planning to remodel a Jack in the Box in Gun Barrel City, Texas, and convert it into a Captain D's, and we are looking to open additional locations in McKinney and Paris over the next several years.

First turning point in your career: I've always worked two jobs. When I got my start at KFC, I was also working at JPMorgan Chase Bank. Eventually, I switched to part-time at Chase and was ready to lean into my own venture. The transition was hard at first, giving away part of my income to invest in my own dream. That moment was pivotal in my career shift, with everything riding on the performance of my locations. Looking back, it definitely all worked out!

Best business decision: Going into franchising! I love to meet people and make them smile. They might be having the worst day, but if I'm at my restaurant I go out of my way to make sure they receive the best service and care. Our day-to-day interactions can really make all the difference, which is why I feel passionate about customer service.

Hardest lesson learned: Learning that when you still have food on the plate, don't go back to the buffet. That's the analogy I use. For example, I've opened 10 restaurants in 2020 and plan to open 8 more this year. And while I'm fortunate to see all this success, I also need to pace myself for the development to come. Growth is tough, but even harder to sustain. I remind myself of this every day with my business partners. Learning about work-life balance is also important.

Work week: My week is pretty crazy, but I love every second of it. My wife will tell you that! I work almost every day most of the day, but I do take Sundays off. That is important to me, and I found the flexibility to control my schedule in franchising.

Exercise/workout: I try to incorporate a one-hour walk at night into my schedule. Since my businesses close at night, it gives my wife and me a chance to take a stroll and exercise after our busy day.

Best advice you ever got: To be punctual. It makes a difference in life. I also hate procrastinating.

What's your passion in business? People. I take great pride in managing and developing people. I have had a lot of crew members working with me for the past 10 years and sticking by my side. I feel very fortunate to have them, so I go out of my way to take care of those folks.

How do you balance life and work? Unfortunately, I don't at the moment but it's something I'm working on. Between a 60- and 70-hour work week, I want to be there for my kids as much as I can, but I am also work-oriented and want to ensure a secure future for my family. One of the things I love most about franchising is that it allows the flexibility to involve your family in the business, so I'm hopeful my kids will join the legacy one day.

Guilty pleasure: Eating sweets! I'm not picky.

Favorite book: *God of Small Things* by Arundhati Roy.

Favorite movie: Anything with Denzel Washington.

What do most people not know about you? Many people see me as flexible with a soft demeanor, which is an aspect of my personality. But once you really get to know me you learn more about the decisive business mind inside.

Pet peeve: When clothes don't fit properly.

What did you want to be when you grew up? I wanted to be successful. I grew up in Bangladesh in a middle-class family. We are two brothers and one sister. In school, I was always on top of my class, striving for

more. I was also work-oriented, and at 16 got my first job privately tutoring my classmates. By my early 20s I quite literally won the lottery—the immigration lottery—and earned the amazing opportunity to get a working visa and come to the United States. From there, I worked hard and didn't take one moment for granted.

Last vacation: I went to Washington, D.C., and got to see all of the historic sites.

Person I'd most like to have lunch with: This answer may seem a bit odd, but my business partners! I like to learn a lot and I feel that, together, we exchange the most interesting ideas. It's always a pleasure and I can't get enough of it.

MANAGEMENT

Business philosophy: No matter how many brands and locations I own, I want each restaurant to be successful. Make sure the brand image is aligned, that we're growing into the right markets the right way, and doing right by our employees.

Management method or style: After we reach a certain number of locations with each franchise, we introduce above-restaurant-level management to properly manage and monitor the restaurants. I'm very hands-on, evaluating daily reports from each location and making frequent visits.

Greatest challenge: Finding the best people. It's important to have the best staff possible to best represent your brand in a competitive hiring market.

How do others describe you? I am pretty easygoing and very supportive.

One thing I'm looking to do better: I need to get organized with my business ventures and delegate as we grow.

How I give my team room to innovate and experiment: For example, our marketing team works on a very local level using grassroots tactics. We experiment with a variety of these tactics, get the right feedback, and gather thoughts to keep our finger on the pulse of what's trending. I believe it is important for a business to be involved and know its neighbors, especially in a small town.

How close are you to operations? Very close and I'm pretty hands-on. We discuss numbers every day and look for opportunities to do things better.

What are the two most important things you rely on from your franchisor? The training support is a very important part to get restaurants up and running. For example, opening our first Captain D's restaurants this year during the pandemic might have seemed like a challenge on the surface. However, my experience could not have been smoother, proving that the right system in place allows for a well-oiled machine under any circumstance. Additionally, marketing is a huge contributor, particularly on a local local level as you grow into new markets like the small towns we're growing in.

What I need from vendors: I need them to be easy to work with. Flexibility with delivery time, quality, and service is important. I also would like my franchisors to negotiate the best rates for us with our vendors.

Have you changed your marketing strategy in response to the economy? How? It has changed a lot because people have a tighter budget this year. Therefore, we try to provide the best value for our products and showcase that in our marketing. We've narrowed in on local marketing and grassroots efforts. For example, we implemented punch cards that would be valid across all of our restaurant brands. Once completed, the individual will get a coupon toward one of the many restaurants we operate.

How is social media affecting your business? Social media, especially Facebook, is very big in small towns. We can boost local promotions that way, as well as on the website for additional visibility. It's working out great.

How do you hire and fire? Small towns are easy to hire in. Sometimes, we'll set up chairs, a table, music, and just have walk-up opportunities to chat about positions. For bigger markets, we look to social media and job hiring sites. As for firing, we give out two warnings, which are write-ups. If the person hasn't improved, we have to let them go.

How do you train and retain? We handle training at the store level aligned with each brand. Management tends to be certified by the franchisor. To retain, we offer competitive and fair wages, a flexible schedule, and an understanding environment.

How do you deal with problem employees? As I mentioned, we offer two warnings. Third strike and you're out. That's not to say we don't try to work with employees. I feel second chances are important, which is why we offer opportunities to improve. But if the relationship isn't working, sometimes it is best for everyone to move on. Most of the time we find people are willing to improve and earn their paychecks.

Fastest way into my doghouse: Attitude makes all the difference in life. If a person just doesn't want to improve, there isn't much more we can do for them.

COVID-19

What are the biggest impacts of Covid-19 on your business? Surprisingly and fortunately, this year has been very positive for us. We've seen 20% to 30% revenue growth since Covid-19 hit. We are very blessed to have drive-thrus at most of our units and to be in business within the fast casual segment. This success allowed us to open a restaurant about every month last year.

How have you responded? We've enhanced our health and sanitation practices with professional cleanings, shut down our dine-in lobbies, and concentrated on the speediness of our drive-thrus. With our focus on the off-premises piece of our business, we looked for ways to serve our food faster and more efficiently. We also kept an eye on our employees and maintained a transparent atmosphere so that they knew to take precautions and time off, especially if potentially exposed to Covid-19.

What changes do you think will be permanent? Social distancing is here to stay

for a bit longer. People realized they can work from home, got accustomed to drive-thru and off-premises dining, and now expect delivery options.

BOTTOM LINE

Annual revenue: About $15 million.

2021 goals: I hope to open 8 to 10 more stores and to stay on track with timelines.

Growth meter: How do you measure your growth? We focus on development. Growth is good, but hard to sustain. We are vigilant that while we are growing we are also maintaining successful locations.

Vision meter: Where do you want to be in 5 years? 10 years? Hopefully introducing our brands into new markets across Texas, as we have with Captain D's last year. In 5 years, we're looking to open 25 to 30 more locations across our portfolio while maintaining quality product and service. We're so busy now I'm not even thinking that far ahead into 10 years!

Do you have brands in different segments? Why/why not? We have a brand in each food segment, from fried chicken to seafood to pizza. We felt diversification was the way to go. Captain D's is a great example of that. They're the leader in their segment and the only viable fast casual seafood brand. Also, their better-for-you products and the breadth of their menu are the way of the future, along with added-value products. Diversification has always been important to my business partners and me. In 2015, we began to open what we called a "dual cap," two restaurants conjoined in one building side-by-side. By doing that, we were able to maximize use of the property and eventually went on to triple capping. These are massive operations, especially in a small town where we are able to employ about 70 people in one plaza. It makes a statement and helps our community. Real estate is also important to us. Captain D's stays ahead of the game in this area, offering extremely flexible prototypes and development options.

How is the economy in your region affecting you, your employees, your customers? For Texas, the state seems to be doing very well economically. It has been a booming hub in the country for the past few years. A lot of real estate investors are pouring projects into our cities and, as a result, a lot of people are moving here from other states.

Are you experiencing economic growth in your market? Yes, multiple land developers are moving into the state and are creating opportunity for retailers, restaurants, multi-family developments, golf courses, and more. We are extremely fortunate to have this going on around us.

How do changes in the economy affect the way you do business? More people means more bellies to fill. A new population is interested in new restaurants, and from there we focus on retaining our customers.

How do you forecast for your business? We look at what's happening locally in our small towns and want to be a part of the conversation. We also keep in mind same store sales growth and population growth.

What are the best sources for capital expansion? All of our ventures are from private investment funds from our small pool of partners. We also consult regular financing options like banks.

Experience with private equity, local banks, national banks, other institutions? Why/why not? We prefer local banks out of all options. We want to be a part of each local community we operate in because a financial relationship ends up going a long way. We also find we have better approval rates with small banks and are more comfortable with one-on-one interaction.

What are you doing to take care of your employees? We want them to know we're there for them in a rough patch. We know everyone has been affected this year. If they are running behind on bills or are down on their luck, we give them financial advances or loans. We see it as an investment. A happy employee translates to a productive employee who is just as invested in the business as we are. This mentality trickles down to a happy customer.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? Although minimum wage didn't increase in Texas, we continue to adjust our wages to the cost of living as it increases.

What laws and regulations are affecting your business and how are you dealing with this? Small businesses get taxed from all angles, but it is what it is. We do things the right way and know that is the way it must be operated. We budget for it in our game plan.

How do you reward/recognize top-performing employees? Most people are hurting financially right now, so every quarter we grant our top-performing employees rewards and incentives such as gift cards or cash bonuses.

What kind of exit strategy do you have in place? We've always ensured a healthy relationship with each of our franchisors. We don't have any plans to exit right now, but if we decide to, we would seek additional opportunities with the brand outside of how we've been operating. ■

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PERSISTENCE BEATS RESISTANCE

From Sudan to the U.S. Army to multi-brand operator

Written By **KERRY PIPES**

Yonas Hagos spent most of his childhood in a refugee camp in Sudan. His family emigrated to the U.S. in 1992 when he was 10. In 2002, following the World Trade Center bombings in New York, he enlisted in the U.S. Army. While serving in Iraq, he was wounded by a rocket-propelled grenade and was awarded a Purple Heart. Hagos experienced more in his first couple of decades than most people do in a lifetime.

Back home in the U.S., he started thinking about his future. "I knew then if I want to chase my dreams, I have to do it now because I'm not getting any younger," says the 38-year-old today. He started his own company before deciding to purchase his first franchise in 2009, an Anytime Fitness on the outskirts of Chicago. Franchising was a perfect fit for the disciplined Army veteran.

He grew fast, adding brands and building the infrastructure to support his expansion. At one point he had 17 Dunkin' locations in Illinois and Missouri. Today he has 7 Dunkin' stores, 18 Smoothie Kings, one Arby's, and one Chicken Salad Chick. He also has agreements to build more units with each of his brands.

Hagos is a firm believer in following the franchisor's proven process, which is one of the things that attracted him to the franchise business model. "As the franchisee, it's important to trust the process and their decisions. It's not Yonas's donut shop, it's Dunkin'."

He also believes following the process has helped him become more aligned with his brands' corporate teams. "When you're showing the franchisor you're doing everything right, they are open to hearing your ideas," he says. "The leadership team is willing to listen."

Hagos intends to continue growing each of his brands. He'd like to ramp up to 10 Dunkin' locations, 10 Chicken Salad Chicks, 5 Arby's, and, wait for it… 100 Smoothie Kings. He's a big fan of the smoothie brand and its healthy products. He's also looking for more opportunities in real estate. "Real estate is a long-term goal for me," he says. He owns most of the real estate where his Dunkin' stores are located and is gradually doing the same with his Smoothie Kings.

Hagos says the secret to life, and to franchising, is to be persistent. "When things get hard, just keep going. Persistence beats resistance."

PERSONAL

First job: McDonald's at the age of 14.

Formative influences/events: I spent most of my childhood in a refugee camp in Sudan before coming to the United States when I was 10 years old. My parents always told me when you come to America, it's the land of opportunity. It was instilled in me early on if you work hard, you can make it. The other formative influence/event was coming back wounded from Iraq. I had that military discipline and understood life is short. I knew then that if I want to chase my dreams, I have to do it now because I'm not getting any younger.

Key accomplishments: Opening my first Dunkin' was a milestone for me. From there, the transition to becoming a multi-brand and multi-unit franchise owner. Of course, becoming a father was a huge accomplishment and a blessing for me, too. In fact, 2013 was a big year: opening my first Dunkin' and welcoming my son into this world a few days later.

Biggest current challenge: Trying my best to operate through Covid-19 right now. I'm blessed to have a solid staff in place and nine locations with drive-thrus. Even when the stores are doing well, it's vital to keep everyone healthy, from the employees to the customers. It can be very challenging. It's the uncertainty of not knowing when this will be over with.

Next big goal: I gave myself a 5-year goal. I'd like to be at 10 Dunkin' locations, unless some great opportunity arises to do something different. I could see myself having 100 Smoothie Kings, maybe 10 Chicken Salad Chicks, and 5 Arby's. I want to focus more on real estate. I do own a few properties, that's huge for me. Real estate's a long-term goal for me. I own most of the properties my Dunkin's sit on, and I'm

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YONAS HAGOS, 38

Multi-brand franchisee

Companies: 18 Smoothie King (25 by March), 7 Dunkin' (4 combined with Baskin-Robbins), 1 Arby's (with plans to work on a couple more), 1 Chicken Salad Chick

Family: Married with two kids

Years in franchising: 12

slowly doing that with Smoothie King. I do have personal properties that I own, too. I want to invest in real estate for my restaurants, personal, and rental properties.

First turning point in your career: When I opened my third Dunkin'. That's when I could say I was more of a multi-unit operator. The first two were hard; going from one to two stores was very difficult. By the time I opened the third I had some experience. Things just made sense; things seemed easier because you have more people to pull in if you need help. You have more resources, and that's when I realized things get easier as you grow. I remember when I was on my fifth location, I was feeling a bit worn down, but then a corporate gentleman from Dunkin' told me it will get easier as you expand. Now I know what he meant by that.

Best business decision: While I'm glad I listened to him, my best move was following my gut. I've heard a lot of negative things all my life, but I never let the opinions of others stop me from my dreams. When you tell people what you're doing and people start observing, they want to share their opinions. A lot of people put limitations on themselves, so when they see you doing something that they can't do themselves they are quick to share their opinions and doubts. I received a lot of, "Oh, you should stop," or, "That's too hard, and how are you going to get the money?" Since they're selling themselves short, they're expecting you to do the same. When you defy gravity, they see you doing it and wonder how they can do it. When you prove people wrong, they are equally just as shocked.

Hardest lesson learned: Sometimes you do fall flat on your face trying to grow too fast and partnering with the wrong people. It's like a marriage, that's probably one of the best things I've learned: Be careful who you go to bed with in business. Don't team up with whoever is flashing you money. That doesn't necessarily mean you're going to get along.

Work week: People ask me this a lot, and I love it. I have an office, and I haven't had one. I'm more manning the shifts now and managing the multi-units, but I'm still hands-on and have my finger on the pulse of every store. There's no typical schedule. It's not like a Monday-Friday, 9-to-5 where I clock in at this time, have Saturday and Sunday off, and I have every holiday. Even on vacation, I'm always picking up my phone. I do have an idea of how things can go for the day, but you never know what's going to happen at the stores. There are big and small obstacles to tackle every day, anything from equipment breaking to someone being hurt. That's what makes my job very interesting. That's what I love about it. There's no set day I know what I'm getting myself into.

Exercise/workout: I do exercise. I'm very active to help keep my sanity. I used to run a lot, but I'm preserving my knees. I do anywhere from 10 to 15 miles a day and I lift weights. That always helps me. I'm very upbeat and energetic. You have to be to be in this business.

Best advice you ever got: It was from the vice president of Anytime Fitness. When I opened up Anytime Fitness, it was during a recession so it was hard to get financing. However, he told me you have to have this kind of mindset for running any business: persistence beats resistance. In franchising and in life it boils down to, "If you want this, don't give up. Stay persistent." I've been living like that for a very long time, and it's worked. Every time it gets harder, keep knocking at the wall, keep hitting the wall hard. *Persistence beats resistance.*

What's your passion in business? I love developing and building, and I love changing lives by building businesses. As I mentioned, there are some naysayers who argue that outside of the managers, they don't think providing minimum-wage jobs is worthwhile. I disagree, as my team and I are still a part of teaching them what it means to work hard and instill lasting values. Nowadays things are different, but what people don't understand is that you're not only creating minimum-wage jobs or high-paying manager jobs, but that it takes people to build a store. That's why I love capitalism and how things work in this country. You're going to hire someone locally, from a carpenter and a concrete guy to the machine shop that builds the storefront sign. I am always intrigued by how building businesses creates and requires a variety of different roles and jobs to be created.

How do you balance life and work? I've been doing a better job, but that's one thing a lot of people who have been doing this longer will warn you about. I'm one of those guys who can work 24/7, but I've had people who've done this before me tell me, "Hey, you're a young guy, you have a young family, you have to find some time for your wife and kids." If you don't, next thing you know, you've provided your kids and wife with this great life of financial freedom, but it won't mean anything when they need you later. I have known that for the last couple of years now. I tell my managers, "Unless you really need me, leave me alone because I'm on family time."

Guilty pleasure: It's funny how things have changed. I used to watch a lot of shows and go to the movies. Now I'm more fascinated and more intrigued by building a business. I get bored easily, but once in a while if I do find a show, I'll binge Netflix for a day or so. That's not often, though, I don't have time. By the time my wife and I say, "All right, let's watch a show," it's 8 or 9 p.m. and we're ready to go to bed. Then wake up the next morning, hit the gym, and do what life brings to me.

Favorite book: *1984* by George Orwell.

Favorite movie: "Shawshank Redemption" is probably my favorite.

What do most people not know about you? That I do well for myself, and you wouldn't be able to tell if you met me. I'm not Warren Buffet, but I'm doing okay. There's ups and downs, but I'm not flashy.

Pet peeve: I don't like thieves and liars. I don't like people who cut corners. If you're going to do something, you have to do it right. Put your whole back into it. If you're going to do something, see it through.

What did you want to be when you grew up? I wanted to own my own business. I wanted to be an athlete at one time, but as I started going through high school, I realized you'll make more money working for yourself, and it won't beat your body up as much. The muscle you have to flex the most in business is your brain.

Last vacation: I was in Cancun not too long ago for my daughter's birthday.

Person I'd most like to have lunch with: Michael Jordan.

MANAGEMENT

Business philosophy: I don't like micromanaging, but I do have my finger on the pulse of the business. You hire people who can get the job done, so step back and let them do their job. I always tell my managers, "If I have to keep an eye on you every single day, then I don't need you." I don't like babysitting, although being a multi-unit owner comes with 4 or 5 babysitters. However, I empower people to self-manage, and it's worked pretty well.

Management method or style: Don't micromanage. That doesn't mean I'm laid back and let people get away with murder, but I know what tiers they need to hit and where sales needs to be. We have metrics for every concept, and that helps the team understand what to aim for. If they're hitting them and I'm making money, no need for me to bug them. I do have a saying: In order to be comfortable, you must make yourself uncomfortable. I tell that to all my staff and my managers. Don't get complacent because you feel like sales are good or we have this down. Things can go south at any minute.

Greatest challenge: Besides Covid-19, it was gearing up to grow into the multi-unit world. Growing at a sustainable pace was the biggest challenge. It was learning how to grow the concept, the brand, and figuring how to raise the financials. When I first started doing this, I met all kinds of people from Dunkin' and different brands sharing how many stores they had, from 10 to 50 units. I always wondered how they did it and at what pace. Some of their parents started it, so it's different. For me, I'm first generation. For my kids, it will be easier to take this and grow it even bigger. I've met people like me who started from nothing, so you get inspired thinking, "If he or she can do it, I can definitely do it."

How do others describe you? Hard-working and humble. You can get tired seeing me work. I'm persistent, confident, and I lead from the front. When most people meet me they have no idea who I am or what I have worked for because I don't flaunt anything.

One thing I'm looking to do better: Just trying to improve the concepts in a respectful manner. I'm always looking to improve and trying to make the process better while following the guidelines of the proven franchise models. Every brand is different, but when you're showing the franchisor you're doing everything right, they are open to hearing your ideas. At every franchise I own, the leadership team is willing to listen.

How I give my team room to innovate and experiment: The key is to give them the resources and tools to be successful. For instance, if they have faulty equipment, you can't expect them to do their job to the best of their ability. It's my job to provide my people with everything they need in order to deliver. Empower them to become successful. If they're successful, I'm successful.

How close are you to operations? I'm hands-on and make my rounds. Right now, I'm in my hometown in Yorkville, Ill., and I'm unboxing items for my Smoothie King. I'm vacuuming, I'm sweeping, and if a bathroom needs cleaning, I'll do it. If I visit a store and we're slammed, I'll jump in. When I meet people who know of me but have never met me, they are always surprised I'm not some Maserati, suit-and-tie sort of guy. I pull up in a pickup truck and I'm always ready to help and communicate with my team and who is in my store. People want to work for someone who isn't afraid to work alongside them.

What are the two most important things you rely on from your franchisor? You rely on them for the proven concept and model. As the franchisee who invested and believes in their brand, it's important to trust the process and their decisions. It's not Yonas's donut shop, it's Dunkin'. Trust that they have your best interests in mind. You have to trust them, this is a marriage. You have to hope they make the right decisions. When they're making the call to roll out a new menu item they tested in a different market, I trust they did enough studying.

What I need from vendors: Vendors are obviously a crucial key to our success. They have to have integrity because some vendors—not all—may be in it only for the sale, and once you buy their product they disappear or become unavailable for customer service needs. Vendors are important because if they're not there, you can't get things done. From the companies that supply and repair your equipment to the supply chain that delivers your products and food, you're trusting they're going to do as they promise.

Have you changed your marketing strategy in response to the economy? How? We're pushing more of the third-party delivery vendors now. There are not many people who can go out and about, and if you don't have a drive-thru, it's key you still have delivery and/or curbside capabilities.

How is social media affecting your business? Social media is a good thing, but word travels. Someone takes a picture, tweets this, puts it on Facebook, it can ruin you. So I always tell my employees: be aware. There are always eyes watching, that's the world we live in. It's a good and a bad thing. It can be used for marketing and reaching out to people in your community, and it's used to ruin people. I've seen it. I've had people do that kind of thing. And you can't control every employee. For the most part, though, people understand there are always eyes watching.

How do you hire and fire? I use Snagajob for job listings. We pay a pretty penny but it's worth it. I oversee hiring but trust my managers in place to grow the team as they see fit for all multi-unit locations. We have protocols in place because we never want to terminate people for no reason. There are certain inappropriate things that we'd terminate for on-site. We always do our homework, our due diligence, and investigate, because I don't like getting rid of someone for conflicting stories that don't line up.

How do you train and retain? We're constantly hiring. Obviously in the fast food industry high turnover rates are pretty common. However, if you train someone, more likely than not they're going to stick with you. Additionally, when you ask, "What's the reason they quit?" it was because they're not properly trained. So we do follow the brand protocols, the videos, the e-learning, and the hands-on training. That's something I've been pushing the last couple of years, and I've had less turnover across the board at my stores. As to how to empower people, they need to have the right resources and equipment with the right tools to get the job done.

How do you deal with problem employees? That responsibility falls on the managers. It's their store and I'm not there every day. They have the employee hand guides, the brand standards, my standards, and their own. They may each have their own managing style, but across the board we're always fair. I always tell managers to treat people how you want to be treated. Don't talk down to them, respect them, and lead from the front. I learned "lead from the front" in the military. I always did more for bosses who were willing to do the same work as they were telling me to do. Instead of people saying, "Go clean this, go do that," if you see them doing it, it's like, "Wow, he's the manager or he's the owner, and he's on his hands and knees working." It motivates and inspires you.

Fastest way into my doghouse: I hate liars. Don't lie, don't steal. I always tell employees to just be honest with me and then ask for forgiveness. Just be truthful. If you do those things, we're cool.

COVID-19

What are the biggest impacts of Covid-19 on your business? Mandating masks and making sure your employees are constantly wearing them is very difficult, especially when you're a multi-unit operator. You can't be in every store at the same time so you have to rely on your management team. It's the constant reminders, and reminding them to be safe. It's not knowing where things are going to end up that can be very difficult to stomach.

How have you responded? We shifted to limited hours so we had more time to clean and less exposure for our employees. We're still operating under those emergency hours and it's working fine. The other is just pushing more of the on-the-go curbside pickups, third-party delivery. We want our guests to know we have those capabilities to still offer convenience.

What changes do you think will be permanent? I think the masks are going to be around for quite some time. I'm very optimistic: they're saying we have a vaccine and that it's 90% effective. I think come summer, we'll start to see some kind of normality. I don't see those sneeze guards going away for quite some time. We also hired some third-party cleaners throughout 2020.

BOTTOM LINE

2021 goals: Besides growing, I'd like to spend more time with my family. For me, it has to be fun. It's good to make money, but if it's not fun I'll walk away. I've walked away from other deals because it's not fun, and if it's not fun I don't like doing it—no matter how much money I'm making. It has to be fun. It has to be something I enjoy.

Growth meter: How do you measure growth? I grow aggressively, but smart. My growth is based on how well my staff can handle the growth. You don't want to grow because you have money or the brand is allowing you to grow. You have to say, "Okay, how many stores can I realistically handle and maintain the quality and the standard?"

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, I'd like to have a few more of the stores I'm building. While I love the hard work that goes into building these brands, I'm still hands-on and do the hustle and bustle. I want to get to a spot where I am able to pick and choose what I want to do. I also want to spend more time with my family.

We know you have brands in different segments? Why/why not? Dunkin' has obviously been around for a long time. I wanted to be with the biggest and baddest, and they have a proven record. Smoothie King has been around for a long time as well, and they're still growing. With Dunkin' 30 years ago, there were only a few in the Chicagoland area. Now there are more than 700, and the franchise's AUV is up there. Those people who got in early are doing very well now. So with brands like Smoothie King that have territories to grow in and Chicken Salad Chick, an up-and-coming brand, I'm able to see the vision. I'm in early, so 20 years from now, I'm going to benefit the most.

How is the economy in your region affecting you, your employees and your customers? It's scuffling. The Chicagoland area just entered Tier 3 Resurgence Mitigations. It's going to change things a little bit, but since the first lockdown a lot of what we already implemented for operations will remain the same. We've almost been anticipating we'd still be dealing with the virus through the winter, and with cases spiking throughout the region the mission is the same: keep everyone safe.

Are you experiencing economic growth in your market? Yorkville is. The town is booming, people are moving away from the city. It was growing before but seems to be growing more rapidly now.

How do changes in the economy affect the way you do business? There are a lot of laid-off people, so they have less money to spend and there was only one stimulus check. You can tell that people's spending habits have changed, and rightfully so. People don't know where we're going to be at a month from now, although the vaccine rollouts have started across the country. No one has a crystal ball that's going to tell us when this will be over.

How do you forecast for your business in a world of uncertainty? Although my stores are doing well, I'm still operating as if the first month-and-a-half of the lockdown is our reality and we saw sales drop 40 to 50 percent. Although we're up, I'm still tight in how I operate to make sure we're cash-positive to survive the long, cold winter.

What are the best sources for capital expansion? Working with smaller banks, local banks, and banks that specialize in franchising. Not every bank in your neighborhood understands franchising.

What are you doing to take care of your employees? We have bonus structures to make sure everyone has their incentives. I do my best to help every employee. I try to give raises frequently and make sure I'm keeping their safety in mind first.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? My full-time employees get health insurance if they want to. Some take it, some don't. I am seeing the increases and we've raised prices slowly, but it's all a balancing act to make sure we keep employees happy without turning off customers.

What laws and regulations are affecting your business and how are you dealing with this? Lockdown is the big one right now. We're not able to operate at 100%. Minimum-wage increases definitely hurt my business, and my industry too.

How do you reward/recognize top-performing employees? With raises, bonuses, and awards. I buy lunches for employees at least once a month as long as they're doing their part. There are many ways to motivate the team.

What kind of exit strategy do you have in place? You have to have a way in and a way out. Right now, I'm still young. I don't have an exit strategy yet. I still have that hunger to grow. I have two kids. I'm not going to push them into the business, but you never know. ■

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GROWING UP IN THE BUSINESS

This young hands-on operator is on the road to success

Written By **KERRY PIPES**

Becoming a Wayback Burgers franchisee was a natural progression for Wasif Saddique. He grew up working in his uncle's restaurants where he learned the ropes and advanced through the management ranks. Today, at 30, he operates two of his own Wayback Burgers locations in Roseville and Folsom, California.

Married with no children, Saddique has been clocking 70-hour work weeks as he approaches his fourth complete year as a franchisee with the burger brand. He says he loves it, is proud of his team members, and from time to time still rolls up his sleeves to help out when things get busy. "I communicate with our managers throughout the day, and I often find myself back in the restaurant helping out in any way that I can," he says.

For Saddique, 2020 has been a year for the record books. Covid-19 forced him to close his dining rooms and transition both his restaurants to takeout-only operations with increased operating costs. But he and his team made adjustments, business remained strong, and his team members were even able to maintain their hours through it all.

One of the cornerstones of his success has been his keen focus on customer service and his striving to create repeat customers. This strategy seems to be working, even during the challenging year gone by. He says comparable sales at both restaurants have remained strong. For example, this past October his two locations posted positive comp sales increases of 73% and 34%, their highest increases of the year at the time. "I see this as the ultimate validation that we are doing a good job," he says.

He remains passionate and dedicated to the Wayback Burgers brand and says he would like to expand its presence in the Sacramento market in the future.

PERSONAL

First job: Gas station manager.

Formative influences/events: Managing the gas station gave me experience in numerous important areas: dealing with the different personalities of guests and team members, ordering and inventory management, paperwork and compliance systems, etc.

Key accomplishments: I am fortunate to have been able to grow sales with every business I have been involved with, but the sales growth with Wayback Burgers has been the biggest of all. We are doing a good job and the results have been great!


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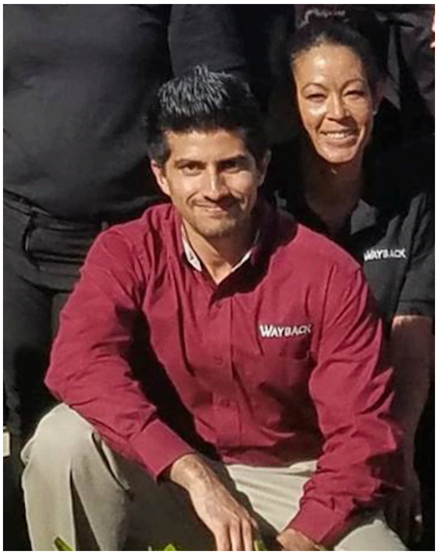

WASIF SADDIQUE, 30

Operator

Company: Wayback Burgers of Roseville and Folsom, CA

Units: 2 Wayback Burgers

Family: Married, no children

Years in franchising: 10

Years in current position: 3½

Biggest current challenge: Hiring and staffing has been very challenging. For the most part, jobs have been plentiful, which gives them a big advantage. Add in rising wages and this is a real challenge for us.

Next big goal: Open additional locations.

First turning point in your career: The sales growth that followed my first experience as a manager gave me confidence. It let me know that I was focusing on the right things and helped create more opportunities.

Best business decision: When it comes to selecting leadership, I am a big believer in promoting from within. Both of our managers began as regular team members, worked hard, performed well, and were promoted to the manager position as a result. I am very happy with their performance and feel this is a practice I will continue in the future.

Hardest lesson learned: There will be a lot of wasted product if we are not careful. Reviewing the waste numbers at the end of the year and quantifying waste in terms of dollars was an extremely frustrating feeling that compelled me to take action to correct inventory management problems.

Work week: 70 hours.

Exercise/workout: I enjoy running.

Best advice you ever got: Keep things simple and stay within your area of expertise. It is great if people want to try new things and take on new challenges, but I find mastering and focusing on one thing is the quickest path to success.

What's your passion in business? I am highly motivated to grow our brand recognition within our local market. I want everyone in the greater area to know our company and associate it with positive feelings.

How do you balance life and work? It is difficult. The business is open 7 days a week from morning until late at night. Scheduling is definitely challenging when one is focused on growth, but I do my best to make everything work.

Guilty pleasure: None, I am pretty by the book.

Favorite book: My favorite book is actually *The Principles of Accounting*. I find the concepts very interesting.

Favorite movie: The Bourne series.

What do most people not know about you? I am usually very upbeat and positive about everything, which can make me difficult to read when I'm unhappy. I hide negative emotions well.

Pet peeve: People showing up late for their shifts. Not only does it have an impact on our guests' experience, it also negatively affects their fellow team members, which is something that frustrates me greatly.

What did you want to be when you grew up? I have always wanted to be a businessman!

Last vacation: In 2019 to Punjab, Pakistan. It was a great time.

Person I'd most like to have lunch with: I have an uncle who is extremely experienced in this industry. Whenever we can, I enjoy meeting up and picking his brain to learn more about this business.

MANAGEMENT

Business philosophy: It is important to stay on top of things so that we can proactively build business, as opposed to reactively solve existing problems. This starts with preparation and following the right hiring, training, and management practices with the team. It means mapping out the right marketing plan. It means implementing the right cost controls, etc.

Management method or style: I am a big believer in empowering, recognizing, and rewarding high-performing team members. So much of the business's success depends on them. It is important for me to keep them performing well, and I find they respond best to this approach.

Greatest challenge: Staffing is very hard for us. We have had great success with management, but the hourly part-timers come and go very quickly, sometimes with little or no notice of departure.

How do others describe you? Happy, hard-working, respectful.

One thing I'm looking to do better: I need to find a way to reduce turnover with part-time team members. We are all trying to think of creative, unique ways to improve in this area.

How I give my team room to innovate and experiment: I listen to and understand every idea that someone has and encourage them to offer feedback with things like local marketing and team member retention. It is important for them to know they are heard and that their ideas are valued.

How close are you to operations? Very close. I communicate with our managers throughout the day. On the days we are busier than we expected, I often find myself back in the restaurant helping out in any way I can.

What are the two most important things you rely on from your franchisor? The franchisor takes care of the technological side of things, everything with our POS system and our digital platforms. This has become a critical piece of our business and is something where they have more expertise than I do. They also take care of chain-wide advertising and come up with limited time offers and so forth.

What I need from vendors: Consistency and communication. There has been supply chain disruption everywhere in 2020. It is important that when a problem arises, we know about it as soon as possible so we can get started on addressing it.

Have you changed your marketing strategy in response to the economy? How? We are very fortunate that business has gone very well this year, so we have not changed much. In general, people are always looking for a great experience, especially during tough economic times when they're going out to eat less frequently. They need to be very confident that they are going to be happy with what they receive. As a result, we have continued to promote our service and best products.

How is social media affecting your business? Social media allows word of mouth to spread extremely fast—everyone knows if something is good or bad very quickly. It makes it all the more important that we do a great job in the restaurant. Social media also provides some highly effective marketing channels for us.

How do you hire and fire? We look for friendly, outgoing people we know will get along with both our team members and our guests. We ask them questions that bring out their friendliness. With performance management, we put everyone through the proper process. Expectations are made clear from the beginning, so if the time comes for us to part ways, it is not a surprise.

How do you train and retain? We use the training materials provided to us by corporate, and schedule shifts so trainees can shadow our more experienced team members. For retention, we keep the atmosphere relaxed and upbeat in hopes that people will enjoy it and choose to stick around. Not every restaurant is pleasant to work in, and we want to be one of the good ones.

How do you deal with problem employees? I always address them very respectfully and in one-on-one situations, but I will be direct about the issue. It is important that they know where I am coming from and that I respect them as an individual. This usually helps get them on the same page and back on track.

Fastest way into my doghouse: Any type of negative attitude that can affect the comfort levels of the other team members, or showing up late.

COVID-19

What are the biggest impacts of Covid-19 on your business? The closure of dining rooms forced us to shift entirely to takeout, which has increased costs associated with it. The supply chain also experienced widespread disruption at times, which was not easy to manage.

How have you responded? We have adjusted our schedule and positioning within the restaurant and have learned a lot about the supply chain system itself in order to resolve issues quickly as they arise.

What changes do you think will be permanent? The increased focus on cleanliness and sanitation from the guest's perspective will remain, and I feel this is a very good thing. Guests are much more educated with these items now than previously, which is very important. It is not good for any restaurant guest if a restaurant is slacking in these areas.

BOTTOM LINE

Annual revenue: $1.5 million.

2021 goals: $2 million-plus.

Growth meter: How do you measure your growth? Year-over-year improvement with sales and guest counts.

Vision meter: Where do you want to be in 5 years? 10 years? To have a larger presence with this same brand in our current market. We are happy with the response, and there is much more room to grow.

Do you have brands in different segments? Why/why not? My focus is on Wayback Burgers right now.

How is the economy in your region affecting you, your employees, your customers? We are very fortunate that our business has remained strong. This has been good for me, for our guests who want our product, and for our team who have been able to keep their hours. We have all been lucky so far.

Are you experiencing economic growth in your market? Yes.

How do changes in the economy affect the way you do business? The increased costs associated with only offering takeout ordering is something we have to consider in planning, but overall we will keep things relatively status quo.

How do you forecast for your business? We measure year-over-year and month-to-month trends.

What are the best sources for capital expansion? There are many sources, but my personal preference is internal. Banks are useful as well.

Experience with private equity, local banks, national banks, other institutions? Why/why not? Not at this time.

What are you doing to take care of your employees? I believe in maintaining a happy, positive working environment that they will not dread spending time in. I also know the importance of recognizing and rewarding hard work.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? Retention and cross-training help with labor efficiency and productivity significantly. The expenses are certainly going up, but this affects everyone in the market. It can be balanced in other areas too.

What laws and regulations are affecting your business and how are you dealing with this? The Covid-related laws certainly had an impact, but this is good when they help ensure that everyone remains safe. Wage increases also certainly affect things, but on the other side these wage increases put more money into the pockets of many of our guests, so there is likely some benefit there.

How do you reward/recognize top-performing employees? Bonus programs, added time off, things of this nature. There are lots of ways to be creative, but nothing beats money or increased free time.

What kind of exit strategy do you have in place, if any? None. I am here for the long haul. ■

IMPACT OF THE PANDEMIC ON THE MEGA 99 RANKINGS

Written By **RITWIK DONDE**

Frandata has been running the Mega 99 list for Franchise Update for more than 10 years. Needless to say, we've seen many nationwide and worldwide events, most of which are being eclipsed by the current pandemic in terms of the significant rise in franchise activity. The following four factors are among those that have affected this year's Mega 99 Rankings.

Bankruptcies and financial protection filings. These filings were initiated by large QSR franchise organizations like SD Holdings and NPC International. While this has resulted in a change in ownership patterns, it is important to note that many franchised businesses/locations continue to operate, but under different ownership.

Leadership consolidation. The pandemic also has allowed several large franchisee organizations to consolidate their leadership through acquisitions and resales. Franchisees in certain sectors such as QSR have been quick to take advantage of lower valuations to grow their existing portfolios. For example, Tasty Restaurant Group, a wholly owned affiliate of private equity firm Triton Pacific, acquired 37 Pizza Hut locations, while Sun Holdings, one of the largest franchisee organizations in the U.S., acquired 41 IHOP locations from bankrupt CFRA Holdings for its ever-expanding portfolio.

Franchisee diversification. Another growing trend affecting this year's Mega 99 Rankings is related to franchisees' diversification strategies, which took advantage of franchisors' fee incentives and discounts during the pandemic. For example, several franchisees in the fitness and gym sector diversified into other beauty-related options that showed greater business resistance to pandemic-related closures and shelter-at-home orders.

Increased PE activity. The pandemic also saw emerging brands attracting private equity firms and getting them to sign large multi-unit deals in 2020. For example, Chunara Group of Companies, a private equity group based in Atlanta (which already owned franchises including Dunkin', Checkers, Church's Chicken, and Popeyes), signed a 9-unit development deal with My Eyelab. PE and asset management firms also signed large deals with Everbowl (20 units) and Coolgreens (50 units). Interestingly, PE and investment firms signed large deals with established brands that were quick to adapt their business model to the changes pushed forth by the pandemic. These include the 49-unit deal signed by Papa John's with HB Restaurant Group, and the 50-unit development deal signed by Freddy's Frozen Custard & Steakburgers with R Solution Holdings. ■

Ritwik Donde is a senior research consultant at Frandata, an independent research and advisory company providing insight and analysis for the franchising sector since 1989.

RANK	COMPANY	UNITS	BRANDS
1	FLYNN RESTAURANT GROUP	**1,239**	APPLEBEE'S, ARBY'S, PANERA BREAD, TACO BELL
2	CARROLS GROUP	**1,085**	BURGER KING, POPEYES LOUISIANA KITCHEN
3	SUN HOLDINGS	**1,045**	BURGER KING, POPEYES LOUISIANA KITCHEN, ARBY'S, GNC, CICIS, GOLDEN CORRAL, KRISPY KREME, T-MOBILE, TACO BUENO, AIRPORT RESTAURANTS, IHOP
4	TARGET	**900**	PIZZA HUT
5	KBP FOODS	**895**	KFC, TACO BELL
6	DHANANI GROUP	**824**	BURGER KING, POPEYES LOUISIANA KITCHEN, LA MADELEINE FRENCH BAKERY & CAFÉ


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RANK	COMPANY	UNITS	BRANDS
7	PILOT TRAVEL CENTERS	**790**	SUBWAY, CINNABON, DUNKIN', WENDY'S, ARBY'S, TACO BELL, DQ TREAT, PIZZA HUT, MOE'S SOUTHWEST GRILL, KFC, HOT STUFF PIZZA, IHOP, CARVEL, AUNTIE ANNE'S, BURGER KING, DENNY'S, CHESTER'S, MCDONALD'S
8	MUY BRANDS	**768**	PIZZA HUT, WENDY'S, TACO BELL
9	ARAMARK	**637**	CHICK-FIL-A, EINSTEIN BROS. BAGELS, SUBWAY, PANDA EXPRESS, OATH PIZZA, WHICH WICH, PAPA JOHN'S, MOE'S SOUTHWEST GRILL, PIZZA HUT, DUNKIN', STEAK 'N SHAKE, FRESHII, JAMBA, QDOBA MEXICAN EATS, TACO BELL, RAISING CANE'S, CHILI'S, TIM HORTONS, MOOYAH, QUAKER STEAK & LUBE, ERBERT & GERBERT'S SANDWICH SHOP, QUIZNOS, WENDY'S, MCALISTER'S DELI, PJ'S COFFEE OF NEW ORLEANS, CARIBOU COFFEE, KFC, BURGERFI, COSI, DUNN BROTHERS COFFEE, PANERA BREAD, VILLAGE JUICE CO., BEEF 'O' BRADY'S, PINKBERRY, WAHOO'S FISH TACO, NATHAN'S FAMOUS, FIREHOUSE SUBS, EXTREME PITA, IHOP, LA MADELEINE FRENCH BAKERY & CAFÉ, DENNY'S
10	LOVE'S TRAVEL STOPS & COUNTRY STORES	**534**	SUBWAY, GODFATHER'S PIZZA, CHESTER'S, HARDEE'S, TACO JOHN'S, IHOP, DUNKIN', ARBY'S, DQ TREAT
10	ARMY & AIR FORCE EXCHANGE SERVICES	**534**	SUBWAY, BURGER KING, CHARLEYS PHILLY STEAKS, POPEYES LOUISIANA KITCHEN, TACO BELL, ARBY'S, EINSTEIN BROS. BAGELS, QDOBA MEXICAN EATS, MANCHU WOK, DUNKIN', WING ZONE, BASKIN-ROBBINS, BLIMPIE, PIZZA HUT, TACO JOHN'S, SLIM CHICKENS
12	TEAM CAR CARE (HEARTLAND AUTOMOTIVE SERVICE)	**517**	JIFFY LUBE
13	GPS HOSPITALITY	**480**	BURGER KING, POPEYES LOUISIANA KITCHEN, PIZZA HUT
14	SPEEDWAY	**477**	DUNKIN', SUBWAY, WENDY'S
15	SUMMIT RESTAURANT GROUP	**390**	IHOP, APPLEBEE'S
16	AMPEX BRANDS	**382**	KFC, PIZZA HUT, LONG JOHN SILVER'S, TACO BELL, A&W
17	HARMAN MANAGEMENT	**374**	KFC, A&W, LONG JOHN SILVER'S
18	SIZZLING PLATTER	**368**	LITTLE CAESARS, WING STOP, DUNKIN', SIZZLER, RED ROBIN
18	JIB MANAGEMENT (YADAV ENTERPRISES)	**368**	JACK IN THE BOX, DENNY'S, TGI FRIDAYS, EL POLLO LOCO, CORNER BAKERY CAFE, SIZZLER
20	ROTTINGHAUS	**367**	SUBWAY
21	BODDIE-NOELL ENTERPRISES	**342**	HARDEE'S
22	MERITAGE HOSPITALITY GROUP	**340**	WENDY'S
22	CHARTER FOODS	**340**	TACO BELL, LONG JOHN SILVER'S, KFC, A&W, PIZZA HUT


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RANK	COMPANY	UNITS	BRANDS
24	COMPASS GROUP USA	**323**	EINSTEIN BROS. BAGELS, SUBWAY, BLIMPIE, DUNKIN', PAPA JOHN'S, PANDA EXPRESS, PIZZA HUT, MOE'S SOUTHWEST GRILL, JAMBA, SALSARITA'S FRESH MEXICAN GRILL, STEAK 'N SHAKE, TACO BELL, SMASHBURGER, WENDY'S, PJ'S COFFEE OF NEW ORLEANS, CARIBOU COFFEE, TIM HORTONS, CHILI'S, QUIZNOS, WHICH WICH, FIREHOUSE SUBS, FREDDY'S FROZEN CUSTARD & STEAKBURGERS, MARCO'S PIZZA, SBARRO, FRESHII, ERBERT & GERBERT'S SANDWICH SHOP, BASKIN-ROBBINS, ILLY, JOHNNY ROCKETS, PLANET SMOOTHIE, POPEYES LOUISIANA KITCHEN, BEN & JERRY'S, PITA PIT, QDOBA MEXICAN EATS, BURGER KING, KFC, IHOP, SLIM CHICKENS, JASON'S DELI, NATHAN'S FAMOUS, CALIFORNIA TORTILLA, DENNY'S, BOJANGLES'
24	SODEXO	**323**	CHICK-FIL-A, EINSTEIN BROS. BAGELS, SUBWAY, PIZZA HUT, DUNKIN', JAMBA, MOE'S SOUTHWEST GRILL, TACO BELL, QDOBA MEXICAN EATS, STEAK 'N SHAKE, PAPA JOHN'S, ERBERT & GERBERT'S SANDWICH SHOP, GARBANZO MEDITERRANEAN FRESH, BAJA FRESH, THE HABIT BURGER GRILL, BURGER KING, HOT STUFF PIZZA, MCALISTER'S DELI, CARIBOU COFFEE, BASKIN-ROBBINS, GODFATHER'S PIZZA, COSÌ, QUIZNOS, SBARRO, PANERA BREAD, BLAZE PIZZA, DQ TREAT, TIM HORTONS, MOOYAH, DENNY'S
26	WKS RESTAURANT GROUP	**322**	EL POLLO LOCO, WENDY'S, KRISPY KREME, DENNY'S, BLAZE PIZZA
27	TACALA/BOOM FOODS	**319**	TACO BELL, KFC
28	THE COVELLI FAMILY LIMITED PARTNERSHIP	**316**	PANERA BREAD, DQ GRILL & CHILL, DQ TREAT, O'CHARLEY'S
29	PACIFIC BELLS	**307**	TACO BELL, KFC, BUFFALO WILD WINGS
30	K-MAC ENTERPRISES	**306**	TACO BELL, KFC, GOLDEN CORRAL
31	DESERT DE ORO FOODS	**297**	TACO BELL, PIZZA HUT
32	G&M OIL CO.	**296**	CHEVRON, EXTRAMILE, TEXACO
33	SOUTHERN CALIFORNIA PIZZA	**292**	PIZZA HUT
33	AMERICAN WEST RESTAURANT GROUP	**292**	PIZZA HUT
35	MASON-HARRISON-RATLIFF ENTERPRISES	**277**	SONIC DRIVE-IN
36	HAZA FOODS	**276**	WENDY'S, TACO BELL
37	MANNA	**267**	WENDY'S, GOLDEN CORRAL, FAZOLI'S
38	TA OPERATING	**265**	POPEYES LOUISIANA KITCHEN, TACO BELL, SUBWAY, BURGER KING, PIZZA HUT, DUNKIN', ARBY'S, FUDDRUCKERS, CHARLEYS PHILLY STEAKS, FAZOLI'S, A&W, WENDY'S, BLACK BEAR DINER, KFC, CARL'S JR., TACOTIME, HOT STUFF PIZZA, IHOP, BASKIN-ROBBINS, SUPER 8 BY WYNDHAM, NOBLE ROMAN'S

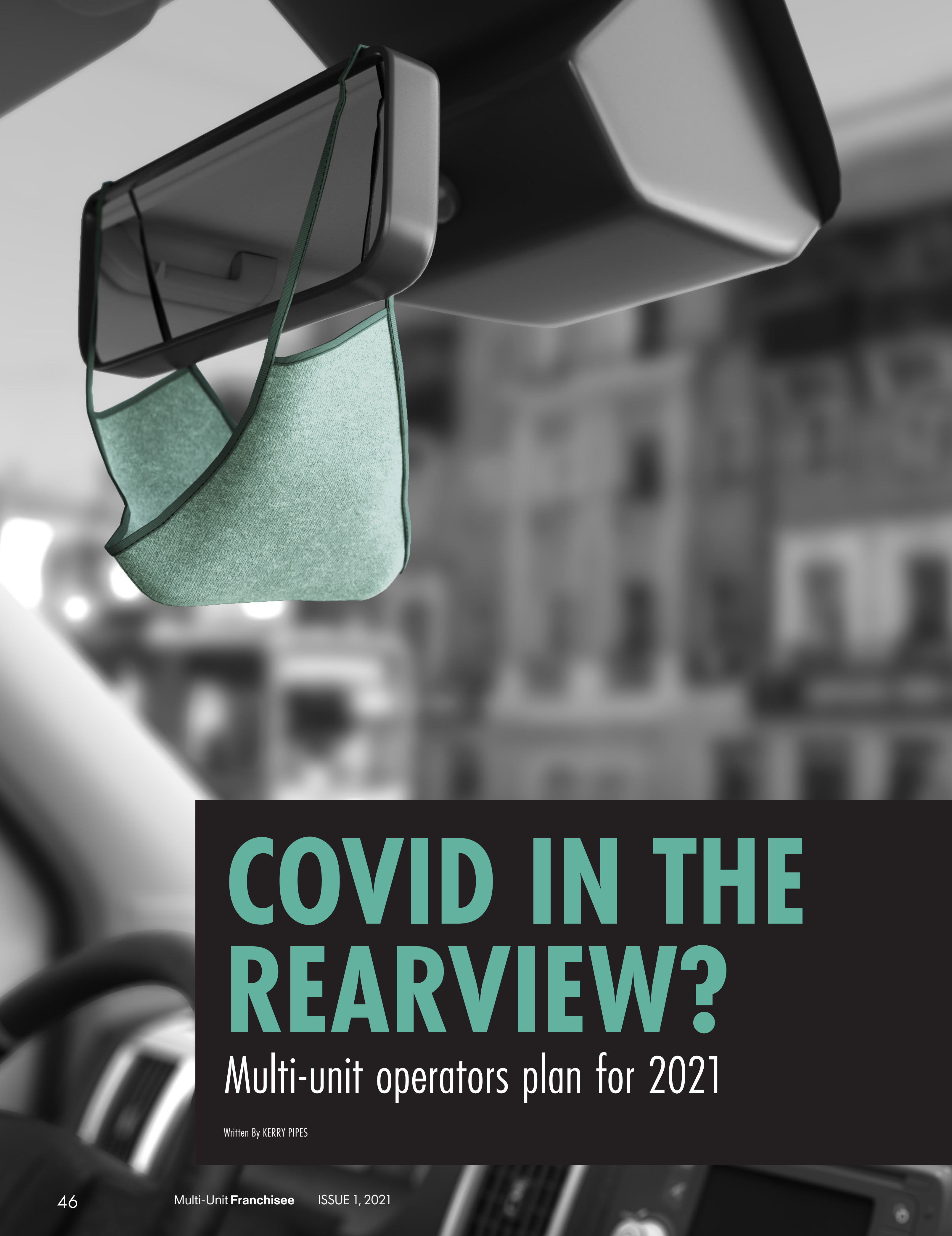
RANK	COMPANY	UNITS	BRANDS
39	WENDPARTNERS FRANCHISE GROUP	257	WENDY'S
40	CIRCLE K STORES	253	SUBWAY, BLIMPIE, HOT STUFF PIZZA, CHURCH'S CHICKEN, HARDEE'S, DQ TREAT, DQ GRILL & CHILL, NOBLE ROMAN'S, HUDDLE HOUSE, CHEVRON, TEXACO
41	MITRA QSR	248	KFC, TACO BELL
42	HART RESTAURANT MANAGEMENT	244	WENDY'S
43	FUGATE ENTERPRISES	243	PIZZA HUT, TACO BELL
44	JAE RESTAURANT GROUP	239	WENDY'S
45	HMSHOST	237	BURGER KING, SBARRO, POPEYES LOUISIANA KITCHEN, QUIZNOS, CHILI'S, ROY ROGERS, CHICK-FIL-A, NATHAN'S FAMOUS, SMASHBURGER, GREAT STEAK, PANDA EXPRESS, KFC, MANCHU WOK, FIREHOUSE SUBS, LA MADELEINE FRENCH BAKERY & CAFÉ, JOHNNY ROCKETS, STEAK 'N SHAKE, PINKBERRY, CARL'S JR., BURGERFI, BLAZE PIZZA, BURGER 21, YEUNG'S LOTUS EXPRESS, KELLY'S CAJUN GRILL, BLIMPIE, THE COUNTER, COLD STONE CREAMERY, PACIUGO GELATO & CAFFÉ, UNA MAS MEXICAN GRILL, A&W, BAJA FRESH, COUSINS SUBS, WING STOP
46	APPLE HOSPITALITY REIT	235	HILTON GARDEN INN, COURTYARD BY MARRIOTT, HAMPTON INN BY HILTON, HOMEWOOD SUITES BY HILTON, RESIDENCE INN BY MARRIOTT, SPRINGHILL SUITES BY MARRIOTT, FAIRFIELD BY MARRIOTT, TOWNEPLACE SUITES BY MARRIOTT, HOME2 SUITES BY HILTON, EMBASSY SUITES BY HILTON, MARRIOTT HOTELS
47	ADF COMPANIES	233	PIZZA HUT, PANERA BREAD
48	PALO ALTO/ ALVARADO CONCEPTS	232	TACO BELL, KFC
49	D.L. ROGERS	231	SONIC DRIVE-IN
50	DIVERSIFIED RESTAURANT GROUP	230	TACO BELL, ARBY'S
51	QUALITY DINING	228	BURGER KING, CHILI'S
52	FOURTEEN FOODS	227	DQ GRILL & CHILL, DQ TREAT
53	MARLU INVESTMENT GROUP	224	ARBY'S, LITTLE CAESARS, CHURCH'S CHICKEN, JACK IN THE BOX
54	PREMIER KINGS	220	BURGER KING, POPEYES LOUISIANA KITCHEN
55	QUALITY HUTS MIDWEST	219	PIZZA HUT, ARBY'S
56	TASTY RESTAURANT GROUP (TASTY HUTS)	216	PIZZA HUT, BURGER KING
57	BORDER FOODS	204	TACO BELL, CHURCH'S CHICKEN
57	EYM GROUP	204	PIZZA HUT, BURGER KING

RANK	COMPANY	UNITS	BRANDS
59	HENLEY ENTERPRISES	200	VALVOLINE INSTANT OIL CHANGE
60	COTTI FOODS	196	WENDY'S, TACO BELL, PIEOLOGY PIZZERIA
61	WENDY'S OF COLORADO SPRINGS	189	WENDY'S, GOLDEN CORRAL
62	FEAST ENTERPRISES (DMSD FOODS/ BESHAY FOODS)	185	JACK IN THE BOX, DENNY'S, CORNER BAKERY CAFE
63	FRESH ALTERNATIVES	181	SUBWAY
64	RPM PIZZA	176	DOMINO'S PIZZA
65	MARWAHA GROUP	175	SUBWAY
65	TEAM LYDERS (SUNDANCE & OLD WEST PROPERTIES)	175	TACO BELL, KFC, PIZZA HUT, ARBY'S
67	HAMRA ENTERPRISES	170	WENDY'S, PANERA BREAD, NOODLES & COMPANY, HOLIDAY INN
68	CAVE ENTERPRISES OPERATIONS	169	BURGER KING
69	BRIAD RESTAURANT GROUP	168	WENDY'S, TGI FRIDAYS
70	NORTHWEST RESTAURANTS	165	TACO BELL, KFC, A&W, PIZZA HUT
71	PJ UNITED	162	PAPA JOHN'S
72	JRN	160	KFC, PIZZA HUT
73	PACPIZZA	155	PIZZA HUT
74	B & G FOOD ENTERPRISES	154	TACO BELL, KFC
75	BURGERBUSTERS	153	TACO BELL, PIZZA HUT, KFC, LONG JOHN SILVER'S
75	CARLISLE CORP	153	WENDY'S
77	VKC GROUP	150	SUBWAY, GREAT AMERICAN COOKIES, PRETZELMAKER, TCBY, TWISTERS BURGERS & BURRITOS
78	CELEBRATION RESTAURANT GROUP/ CFL PIZZA/BRAVO FOODS	149	PIZZA HUT, TACO BELL, KFC
79	GRAND MERE CAPITAL	148	PIZZA HUT
79	GHAI MANAGEMENT SERVICES	148	BURGER KING, TACO BELL
81	METRO FRANCHISING COMMISSARY	145	DUNKIN', BASKIN-ROBBINS, NATHAN'S FAMOUS
81	STARCORP	145	HARDEE'S, CARL'S JR.

RANK	COMPANY	UNITS	BRANDS
83	CALIFORNIA FOOD MANAGEMENT	142	BURGER KING
83	WING FINANCIAL SERVICES	142	JACKSON HEWITT TAX SERVICE
83	BOBBY MERRITT	142	SONIC DRIVE-IN
83	HALLRICH	142	PIZZA HUT
87	WESTLAKE ACE HARDWARE (JOSEPH JEFFRIES)	140	ACE HARDWARE
88	DOHERTY ENTERPRISES	139	APPLEBEE'S, PANERA BREAD
88	INTERFOODS OF AMERICA (SAILORMEN)	139	POPEYES LOUISIANA KITCHEN, BURGER KING
90	TOMS KING	136	BURGER KING
90	BAJCO	136	PAPA JOHN'S, DAIRY QUEEN
92	SUMMIT RESTAURANT GROUP	135	PIZZA HUT, LONG JOHN SILVER'S
92	RESTAURANT MANAGEMENT CO.	135	PIZZA HUT, KFC
94	MANNA DEVELOPMENT GROUP	134	PANERA BREAD
94	MERIDIAN RESTAURANTS	134	BURGER KING, CHILI'S
96	REDBERRY RESTAURANTS	133	BURGER KING, PIZZA HUT
97	RMH FRANCHISE	132	APPLEBEE'S
98	AMERICAN PIZZA PARTNERS	131	PIZZA HUT
99	A3H FOODS	123	JACK IN THE BOX

ABOUT: The Mega 99 Rankings are a list of the largest franchisees/franchisee organizations in the U.S. based on their collective ownership of franchised businesses. FRANdata has used its institutional knowledge along with information gained directly from franchisees to rank franchisees in terms of the franchised businesses/locations they own.

METHODOLOGY: FRANdata has the most comprehensive franchisee database available. FRANdata's database tracks close to 420,000 franchised business locations in 230 subsectors representing more than 240,000 franchisees. Using this information, complemented by the most extensively verified consumer database in the U.S., FRANdata identifies and consolidates franchisee ownership to formulate the Mega 99 Rankings.



COVID IN THE REARVIEW?

Multi-unit operators plan for 2021

Written By KERRY PIPES

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2020 was a year the world would like to forget and remember only in the rearview mirror of life. With Covid-19 vaccines now being distributed and treatments evolving, it appears 2021 may just have a light at the end of this tragic tunnel. Optimism about the end of this pandemic seems to be growing, and with further government stimulus money many economists say the U.S. economy could come roaring back by the second half of this year.

Positive indicators corroborate the projections. For example, in late November, the U.S. economy grew at a record pace, with gross domestic product increasing 33.1% in the third quarter, according to figures from the Commerce Department's Bureau of Economic Analysis. And while this is positive news, it must be tempered by a 31.4% decline in real GDP in Q2. "The increase in third quarter GDP reflected continued efforts to reopen businesses and resume activities that were postponed or restricted because of Covid-19," according to the Commerce Department.

More recently, Michelle Meyer, chief U.S. economist at Bank of America Merrill Lynch, told Fox Business that the U.S. economy is likely to expand 4.5% in 2021. She said that while the economy may grow only 1% in the first quarter, that could be followed by expansion of 7% in the second quarter, and 5% in both the third and fourth quarters.

It's in this light that multi-unit operators begin 2021. We asked seven about the effects of Covid on their business, as well as their thoughts on growth, challenges, and how they are looking ahead.

FORCED TO INNOVATE

Covid-19 temporarily slowed growth for multi-unit operators Andy Somers and David Howell at their 1788 Chicken company, which operates 29 Zaxby's. Says Somers, "I believe going through the darkest days of Covid-19 uncertainty has refined our appetite for growth for the better." However, he adds, "The bar for acquisitions and new development deals in the current environment has gotten higher."

Though it's impossible to fully plan for uncertainty, Somers says having world-class processes to help operate at the highest level is a critical component. "We all saw the dramatic impact Covid-19 had in the hospitality space. Even some of the world's best operators and brands can't withstand such drastic impacts."

Innovation was an important part of the pandemic response for Howell and Somers, who say it came in the form of tweaks to operating procedures with the primary goal of ensuring the health and safety of their team members and guests. "The brand led this with daily communication and continual process enhancements," says Somers. "Follow-on innovation came through menu adaptations to fit in with the rapidly changing customer preferences as nearly everyone's daily routine was altered."

Somers is bullish on the future and says that he and Howell were continuing to seek acquisition and growth opportunities, even as Covid cases continued to rise in late 2020. "We are starting to see a return to some normal cadence—not normalcy—in our operations and potential deal flow," he says. "Our goal is long-term growth, and so we have a willingness to be patient for the right deal and aggressively pursue it when it comes about."

BACK ON THE GROWTH TRACK

Mike Vinckier, an A&W franchisee with two locations, was in the middle of opening a third location in 2020… until Covid. "In the uncertainties of the world, you have to be able to transition. We weren't able to open the third store in December, but our other stores were able to maintain steady sales and even growth," he says.

Like other operators, Vinckier was forced to close dining rooms and reduce hours to stay alive. That's why he added curbside service and focused on carryout and call-in orders. He also created an added bonus program to help his employees.

Vinckier, now set to open that third location, is optimistic about the future. "Stay focused and positive and continue to do what you are doing," he says. "You can't control everything, but focus on what you can control and make it the best it can possibly be. Always stay adaptable."

ADAPT OR DIE

Wayback Burgers multi-unit operator Wasif Saddique faced many of the same restaurant space challenges and subscribed to the mantra of adapt or die. "We were fortunate to have positioned ourselves in such a way that we did not depend on filling up large dining rooms to generate sales," says the 30-year-old operator with two locations in California. "We were able to adjust quite easily to takeout and curbside delivery, and this has paid off for sure."

Despite the pandemic, he was able to keep pace with his previous growth trends last year. "We were growing significantly in 2019 and generally continued the trend in 2020. We are quite fortunate."

Looking to 2021, Saddique says he is focused on providing his guests with "the most impressive experience possible and executing aggressive local marketing efforts to bring more people into the restaurant. This is a winning combination."

BETTER THAN EXPECTED

Multi-brand franchisee Sajib Singha also reported a positive impact on his business from Covid. "We projected six openings last year, which ended up turning into 10," says the operator of Captain D's, Dairy Queen, Golden Chick, Schlotzsky's, and Papa John's franchises. "While we've had to shut down our indoor dining rooms, we've adapted and found opportunity within the fast casual segment and off-premises business." He also quickly gravitated to delivery platforms, drive-thrus, and curbside pickup to get through the worst months of the pandemic.

Singha says regardless of economic conditions, it's important to be prepared for growth and make sure the right people are hired to manage locations. "There's no alternative to hard work. We see it in developing assets, not just restaurants. We look at the business as a whole—real estate, the market, happy returning customers, and overall profitable restaurant operations—day-in and day-out in this difficult circumstance."

He also relies on the proven franchise model his brands provide. "Captain D's is a legacy brand with 50-plus years of experience successfully navigating economic fluctuations," he says. "Because of this, we have never felt more confident in the brand. Once the pandemic is over, we know we can survive tough times and are more than willing to invest in our future."

SILVER LINING

2020 looked like it would be another banner year for multi-brand operator Luis San Miguel. "We completed the acquisition of 12 units during 2019, and our 2020 sales were projected to grow by 20% over 2019," says the operator of more than 40 Auntie Anne's and Cinnabon locations. However, like many others, he was forced to halt his organic and acquisition-based expansion last year.

"When an event like Covid-19 happens, one has to purposely stop growth activities and take stock of the current situation,

including current liquidity position, availability of additional capital resources, impact on operating model, employee needs and challenges, supply chain concerns, and more," says San Miguel. He says it doesn't make sense to continue a "growth at all costs" strategy in the near term.

While circling his wagons during the pandemic, San Miguel turned to digital media to increase outreach to his core consumers, primarily through text message offers and advertising on social media platforms. The primarily mall-based operator is also evaluating alternate sites for new stores that don't require mass gatherings of people. "Malls will continue to be a very important venue for delivering our snacks, but we are seeking other locales that will allow us to fulfill ad hoc orders as efficiently as possible," he says.

San Miguel has found one silver lining during the pandemic. "Events like Covid-19 create excellent long-term growth opportunities as competitors not as well-capitalized or well-positioned exit, either by sale or by closure. We are now starting to evaluate acquisition opportunities once again, especially for properties that have largely returned to pre-Covid levels of activity," he says.

PRIMED FOR GROWTH

Paul Booth operates six McDonald's restaurants and was planning to acquire more before the pandemic struck last year. Shifting his business to drive-thru was one tactic he relied on to continue operating, but he also looked for ways to manage costs. "We controlled labor costs by staffing properly for the drive-thru," he says. "We also evaluated our organizational structure to become more nimble and responsive to the current landscape."

In fact, by focusing more on his existing units and improving their systems and operations, Booth says he feels better primed for future growth. Today he's looking at growing his footprint with new drive-thru-only locations and says he could be closing some underperforming restaurants.

"Before Covid, we were looking at the potential acquisition of more units," he says. "Now that there has been a shift in the business, especially with a significant emphasis on drive-thru, we are waiting to see how the brand adapts its store designs to a drive-thru-focused environment."

FORGING AHEAD

Personal services brand Sola Salon Studios had a different set of Covid-related problems to overcome than those faced by restaurants and traditional retail. "For instance, off-premises tactics were not an option for us because there's no other way to provide our services other than in person," says Heather Safrit, a multi-unit franchisee with 10 Sola Salon Studios in South Florida and Georgia. "Despite having to close our salons for 5 to 7 weeks, our business is really strong and has been rebounding nicely."

Safrit, part of the team that opened the brand's 500th salon early last year, is so confident in a recovery that she has continued moving forward with her growth plans. "We recently purchased rights to additional units in our geography," she says. "Our business has actually expanded because of traditional salons closing and salon professionals and clients wanting to work in and be served in a more private, one-on-one environment."

She believes the U.S. economy is fundamentally strong and that Sola Salon Studios is a solid business model that can't be outsourced overseas. "Even in bad times, people still need to get their hair cut and colored and want to feel good about themselves. Even in these uncertain times, we have held firm to our original growth plans and continued to forge ahead." ■

IN THIS ARTICLE

Paul Booth

Wasif Saddique

Heather Safrit

Luis San Miguel

Sajib Singha

Mike Vinckier

Opportunities Ahead!

Commercial real estate deals expected to rise in 2021

Written By Helen Bond

After months of operating in survival mode, multi-brand franchisees Jack Flechner and Fred Burgess have once again set their sights on growth, with an emphasis on real estate opportunities in 2021.

The South Florida Twin Peaks operators are set to expand the popular restaurant and sports bar chain. They recently signed letters of intent or leases for development in Fort Lauderdale, Doral, and Coral Gables—three high-profile sites in Broward and Miami-Dade counties. "We would never have been able to get in pre-pandemic," says Burgess, president of DMD Ventures, whose holdings include shopping centers, limited-service hotels, and 26 Papa John's Pizza locations in Minnesota's Twin Cities metro area.

After launching construction in July, they opened their fifth Twin Peaks site in December, in Hollywood, Florida, on a landmark downtown site featuring a double-decked patio bar overlooking Hollywood Boulevard. While they knew developing in the heat of the pandemic was problematic, their thought process was simple.

"We have a brand we love and believe in," says Flechner. "Our philosophy was just to survive—with 'survive' being the operative word. And when we come out of it, we will be stronger and better off than most."

MANY FACTORS AT PLAY

While painful economic and pandemic-related uncertainties remain, an expanding hybrid workforce, higher vacancy rates, and evolving customer needs are just a few factors affecting real estate strategies heading into 2021. The accelerated availability of prime sites for new construction and conversions highlights projected 2021 real estate trends as multi-unit franchisees look to rebound and recover—even as Covid-19-related closures continue to mount.

In a recent count, nearly 100,000 businesses listed as temporarily closed on Yelp.com had permanently shut their doors because of the pandemic, according to the platform's Local Economic Impact Report. And the shakeout isn't over, says Carty Davis, a North Carolina investment banker and Sport Clips area developer.

"In the short term, there has been a lot of kicking the can down the road until 2021, so I think you are going to see more tough decisions made in 2021," predicts Davis, a partner with C Squared Advisors. "There are still a lot of negotiations and restructuring discussions going to happen. Those are probably not good for real estate owners and the capital providers that supported them, but they are going to be good for concept operators because their occupancy costs are probably going to go down, and their locations could improve."

2021: EXPECTED TRENDS

Along with site upgrades, other expected real estate trends include the following.

Single-tenant property. The valuation winners during Covid and the foreseeable future are major brands with a drive-thru. If anything, their real estate valuations have gone up slightly because of the business model's sustainability and cash flow through the pandemic, making single-tenant property even more attractive, says Davis.

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"I have been amazed at how quickly our sales are normalizing and a lot of it was because the Another Broken Egg Support Center was ahead of the COVID-19 situation and there for us, working in partnership throughout the crisis to address our concerns and needs. They have been proactive and have made our reopening seamless. We couldn't have asked for more.

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Drive-thru and off-premise continues. Major restaurant chains that have gone all-in on drive-thrus will continue to dominate development for the foreseeable future. Brands will look to reengineer their locations to boost drive-thru, delivery, and takeout efficiencies, often with a smaller dining room footprint.

Conversions, conversions, conversions. Expect to hear a lot about conversions this year. The burgeoning loss of independent restaurants, shuttered as the pandemic drags on, is expected to result in a boon in franchise conversions. From Twin Peaks and Fazoli's to Sonic and regional chain Ledo Pizza (see below), franchises of all shapes and sizes are bolstering development efforts through aggressive conversion strategies.

Operators should look to reinvest in their best restaurants or stores and trade areas for the benefit of all stakeholders, advises Davis, who sees the most significant opportunity—both in availability and cost—with in-line and end-cap locations.

"We view it as a good time to take a step back and look at your portfolio of units and see if there are some opportunities to upgrade space," he says. "There is always a cost of relocating a spot, but if you can relocate from a B-minus location to an A location, in most cases it's going to make sense for quick service casual or personal services. It's not just restaurants where availability of real estate is going to be enhanced."

Davis, an area developer with more than 70 Sport Clips, plans to close and relocate marginal stores to upgraded locations in the general trade market. "We can get a better site for the same square footage cost," he says. "I think you will see a lot more of that, particularly as tenants are close to the expirations of their leases. They can probably get out of them at minimal cost and not exercise options."

BIG CITIES & REMOTE WORK

While the coronavirus outbreak has accelerated existing trends such as retail footprint reductions, it has also stopped others in their tracks. One example is the now-diminishing appeal of big cities, according to "Emerging Trends in Real Estate 2021," a recently published report from PwC and the Urban Land Institute, which analyzed data and insights from more than 1,600 leading real estate industry experts.

Time will tell if this shift is permanent, but flexibility in where and how people work—whether in trendy urban neighborhoods or in the sanctuary of the suburbs—is not going away, prompting brands to rethink locations. Roughly 72% of the global workforce is still working from home and getting the job done. According to Enterprise Technology Research, the percentage of permanent remote workers is expected to double in 2021, from 16.4% to 34.4%.

HESITANT LANDLORDS

With five suburban stores in Maryland and Virginia, Ledo Pizza franchisee Rob Rubin has always been bullish on outlying locations for their lower overall cost of doing business and a more even lunch-dinner daypart split.

Roughly 70 percent of Annapolis, Maryland-based Ledo Pizza's buildouts are conversions, offering franchisees like Rubin flexible footprint options to retrofit failed restaurants or spaces that, he says, "We can build out like how we like." He plans to take a conservative approach to targeted and well-thought-out future expansion, including a sixth Ledo location, on track before the pandemic that remains stalled by the landlord.

"In our experience, the brokerage community is interested in new opportunities, but the landlords are slow grinding on their part of making deals," says Rubin. "They are under a lot of stress themselves. My guess is that fewer deals are getting done because landlords are not sure if they want to invest in new store development. This will change as things start to resume a more normal situation. There are going to be a lot of vacancies, and they want to fill the space. But the question is who is going to spend the money to renovate these stores?"

Real estate analysts say franchisees may drive better bargains and win greater concessions if they remain in their current space, though modifications and who pays will be location- and site-specific.

LEASE NEGOTIATIONS

Emerging viable on the other side of Covid is a marathon, not a sprint, says Las Vegas-based multi-brand operator Jeffrey Klein, who says now is the time to look at your lease to negotiate more favorable terms.

"I plan to be careful in my leases and am much more willing to walk away from a bad lease," says Klein, whose portfolio includes Capriotti's Sandwich Shop, The Gents Place, Auntie Anne's Pretzels, and Baskin-Robbins. "We are also trying to put Covid clauses in every lease, but I have yet to get one in, and I don't think it will happen because the lenders aren't going to allow it."

At Twin Peaks, Flechner and Burgess operate the chain's top three locations. Their development of strip centers and hotels has allowed them to pursue locations that would typically be cost-prohibitive. It also provides them with insights to all sides of real estate negotiations as landlord, tenant, and real estate attorneys.

"We are constrained as landlords to help our tenants by what we can get as concessions from our lenders," says Flechner. "It is a very complicated situation where we have shopping centers worth tens of millions of dollars that also have tens of millions of dollars worth of debt on the properties, so we can't just do whatever we want for obvious reasons. We are aggressive in trying to do it because we are tenants ourselves in many situations."

WHAT NEXT?

Capitalizing on available real estate is not without risks, particularly in times of stress. Franchisees, experts say, should avoid investing in subpar sites just because the price is right. Access, visibility, and other fundamentals of a good site remain unchanged. Some franchisees are also taking a wait-and-see approach to making development decisions in an uncertain environment.

"Everyone wants drive-thru lanes, smaller footprints, and no dining because of Covid, but a year from now, these changes might not be justified," says Rubin. "I want to see how things go for the next 6 to 8 months and see what the new normal is, and not assume that it will be what it is right now."

For franchisees everywhere, resuming everyday life can't come soon enough. "Once the vaccine gets to the general public, there will be a huge pent-up demand for hospitality, travel, hotel, and restaurants once we get through this," Burgess predicts. "I believe it's going to be like the Roaring Twenties again."

Klein, who remains growth-focused and plans to expand with Capriotti's and possibly two other unnamed brands, says, "I believe in 2021." ■

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WHAT'S THE DEAL?

Buying and selling franchises during Covid

Written By **EDDY GOLDBERG**

IN THIS ARTICLE


Matt Baas


Carty Davis


Greg Flynn


Max Friar


Terry Monroe


Gary Robins


Sam Scharich


Ken Stein


Dean Zuccarello

"Exceptional circumstances, such as those of Covid-19, require a blend of courage, clarity, and humility. The biggest enemies of good decision-making in times of crisis are neither uncertainty nor ambiguity; they are, rather, over-confidence, procrastination, and incomplete or biased data." – Deloitte report

Franchise sales are taking longer. This is a great time to be a buyer. This is a great time to be a seller. No one's doing deals right now. 2020 was slow, but 2021 will be a strong year for M&A. There are plenty of opportunities in 2021, but caution is advised.

These are just some of the opinions and predictions we gathered from multi-unit franchisees and franchise sales and M&A pros about what they saw in 2020, and where they see the market for selling and buying franchise units in 2021—unknowns and all. Despite all, decisions must be made, budgets (flexible ones!) finalized, and growth strategies firmed up.

"There was a very healthy market for franchise sales up until the moment Covid hit, which put a halt on pretty much all transactions for most of the time since," says Greg Flynn, founder and CEO of the Flynn Restaurant Group, the country's largest franchisee with nearly 1,300 restaurants nationwide. "Like all transactions, everything was put on hold because people were focused on survival."

"Acquisition has always been part of our growth strategy, but it's now on hold," says Gary Robins, a multi-unit franchisee with 65 Supercuts salons in Pennsylvania, New Jersey, Delaware, and Maryland. "I'm in an industry that has been hit very hard by the pandemic. Personal services in the restaurant, gym, and hair salon categories have not recovered like some of the other businesses. This makes it difficult to plan for the future," he says.

"In my experience, there is an increase in the number of people wanting to sell their units. People also have identified themselves as wanting to buy units, but I haven't seen many transactions

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happening," says Robins. "There are plenty of sellers and plenty of buyers, but no transactions, so what does that mean?"

The past several years were very strong in M&A and buying and selling activity—that is, before Covid, says Dean Zuccarello, founder and CEO of The Cypress Group, a restaurant and franchise investment banking firm. "The volume of activity was a little bit quiet during the past three quarters of 2020," he says, but heading into 2021, "we're starting to see some things pick up a little." Nevertheless, he says, even brands that did well during the pandemic were still cautious about selling into a market with so much Covid-related uncertainty.

"With the vaccines coming out there's light at the end of tunnel, and I expect we will see increased activity across the board," says Zuccarello. "People thinking about selling before Covid will pull the trigger, and we will see some opportunistic transactions to shore up balance sheets."

"People are starting to believe they're going to survive, especially in QSR where transactions are starting to come back to life," says Flynn, whose current brands are Applebee's, Panera Bread, Taco Bell, and Arby's. "They're coming back now, but very slowly. People are still unsure about this resurgence and how long it will last."

TTL: THINGS TAKE LONGER

On the whole, deals are taking longer, for variety of reasons. "You have people in extreme situations, both good and bad," says Ken Stein, founder and managing director of Kensington Company & Affiliates, an M&A company with a focus on franchising. "Some deals might take longer, some might go quicker," he says, determined by the specifics of each situation.

For instance, for new development, he says lenders and investors are being "very cautious." On the other hand, "You're getting these great leases, so it becomes exciting because of real estate opportunities that were not available before," says Stein. "Smart money is thinking longer term, buying up new brands, getting rid of outliers, and looking for longer-term leases."

"There seems to be a general sentiment that it's the wrong time to sell a business because of Covid. This has depressed the market for sellers," says Max Friar, a partner with Small Business Deal Advisors. However, because of supply and demand (which applies even during pandemics, perhaps more so), he sees a more positive environment for sellers than buyers.

"There is high demand for established, profitable businesses and a lower supply of businesses to purchase. If you're a buyer and looking for a business that is underperforming, they're out there, but I don't think it's been a buyer's market," he says. "Most sellers damaged by Covid have just hung on, not run to the exit door."

As a result, says Matt Baas, also a partner at the firm, "Sellers are getting multiple offers on every opportunity, which is great for them." And while multiple offers may drive up selling prices somewhat, he says multiples have remained about the same. However, the time to close a deal has not.

Due diligence is taking longer, bankers are being more cautious, and generally there are just more hoops to jump through in today's environment than pre-Covid. Deals, says Friar, are taking about 30% longer on average, which can equate to 2 or 3 months, sometimes more.

"Everything is taking longer right now because of uncertainty, some disconnect between valuations, lenders taking longer, and if there's a QE report required it's going to be harder to close," says Carty Davis, a partner with C Squared Advisors, a boutique investment bank that has completed hundreds of transactions in the multi-unit franchise and restaurant space, and an area developer for Sport Clips in North Carolina with more than 70 units.

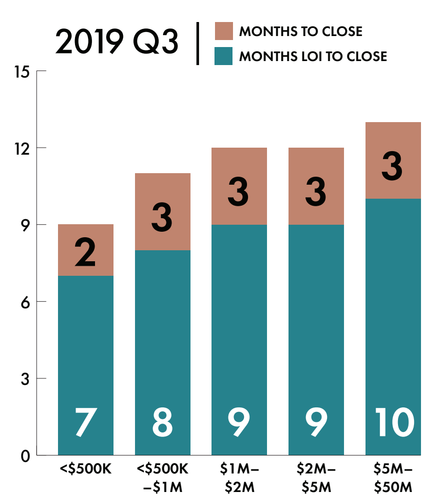
Davis says it's hard to determine exactly what Covid-related adjustments should be made to normalize earnings. "I sympathize with the third-party firms doing the QE report because it's hard to account for Covid. Everyone was affected and will have to adjust earnings. This will complicate transactions in the short term." Third parties looking at financial statements to determine if earnings are sustainable never had to do anything like this before, he adds.

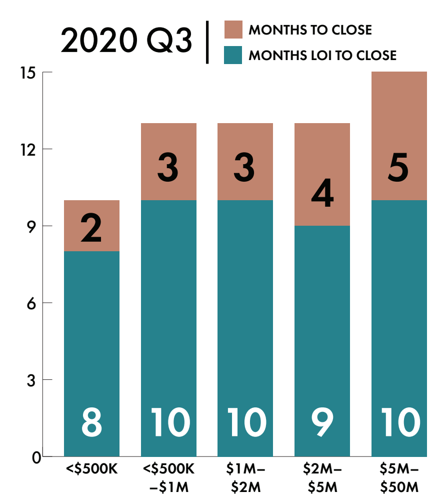
"You need to be patient, creative, and prepared for unexpected issues. You can anticipate some noise in any M&A transaction. Unexpected issues will come up."

VALUATIONS

"People are approaching me about buying their units, but I'm stuck for valuations. I'm not willing to pay pre-Covid pricing for a unit," says Robins, the Supercuts operator. "I also recognize that if you were to use the same valuation methods during Covid that you used pre-Covid, the businesses are probably worth more than what that valuation would indicate from an empirical standpoint. The reality is that it's somewhere in the middle."

Bottom line for Robins entering 2021? "Because I haven't seen other transactions, I can't wrap my head around objective criteria about what that middle ground will be, so I've just stayed away."





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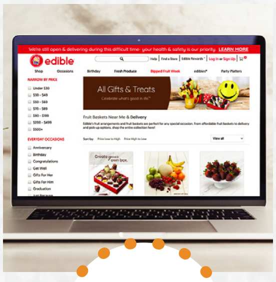

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"What we're seeing is what I'll call the 'normal' M&A market on hold right now," says Davis. "There is no 'This is going to trade at this multiple' because every situation is unique."

"My general take is that valuations on QSRs are up. There's still capital in the marketplace looking for transactions, and Covid shined a light on the resiliency of QSR," says Zuccarello. "From a risk-adjusted point of view, this segment actually did well while others cratered, which has resulted in higher multiples in the QSR segment, while in other segments they are lower."

Add to that the ongoing uncertainty about the extent and timing of a recovery from the pandemic—with the ongoing wild cards of anti-maskers, anti-vaxxers, politics, and the appearance of new forms of the virus—and many franchisees simply have decided to wait it out.

And while valuations are up generally for brands that increased revenue during the pandemic, other factors cloud the picture for both buyers and sellers. Valuations are not only a moving target, they can vary even within an individual franchisee's holdings.

"We will be selling a network of five units in the same brand and getting very different types of multiples," says Stein. "A lot of that has to do with how badly the seller wants to sell, which is dictated by two things: 1) debt, how leveraged they are; and 2) distance, as many operators with outlying stores don't want to deal with that any more."

MOTIVATED SELLERS

"People are looking for bargains, and there are great bargains," say Stein. One potential source of bargains is multi-unit operators selling units outside of their prime geographical area. These could include units that don't fit into the franchisee's network any more or are not in their core concentration; or they need to raise cash because they're over-leveraged and want to contract and preserve what they can.

For example, take a franchisee with 20 units in Massachusetts and 4 in Maryland. "It's not far, but it's not easy to fly and a long drive. Who wants to have that hassle?" says Stein. "There are a lot of opportunities out there where people are reconfiguring their network."

Covid-19 travel restrictions have not only made short airplane hops or drives of even a few hours difficult, they've caused some multi-unit operators to rethink *where* they have their units. This opens newfound opportunities on the buyer side for operators looking to expand into a new brand or increase the concentration of their existing brands in their geographical area.

"If you can't drive it's a lot more problematic than it was before Covid," says Davis. His company was working with a franchisee looking to sell about 20% of the QSR units purchased as part of a bigger package because they were outside the buyer's core area. "You can have more G&A synergies, more efficiencies, if your units are closer together," he says.

Then there are the multi-unit operators who have accelerated their timetable to sell and retire, most notably Baby Boomers. "Many are saying 'I'm done' and are selling at reasonable valuations," says Stein. They don't want to deal with all the new regulations, from the onslaught of ever-changing governmental mandates to the rules (and expense) required to adapt to Covid-related health and safety protocols—with the possibility of one day wondering what to do with all that Plexiglass.

MOTIVATED BUYERS

"Smart young operators are buying, and there's a lot of money on the street looking to lock in low market-value leases and interest rates," says Stein. Those operators are mainly looking for two things, he says: 1) great brands doing well in fragmented markets with excellent margins that they can pick up for a reasonable price; and 2) securing great long-term leases, like many did in 2008 or 2009, in highly visible locations with ample parking.

"Some are getting 20-year leases, even at below today's prices," he says. These buyers are looking for consistent cash flow and, with an eye on the longer term, will pay the multiple being asked.

Another source of potential buyers is the thousands of corporate executives laid off in 2020—a traditional source of franchise candidates, especially when the economy tanks and people are looking for more control of their economic future. "We are seeing a surge in people wanting to get into business," says Terry Monroe, founder and president of American Business Brokers & Advisors.

Disney, airlines, hotels, and many other sectors hit hard by the pandemic are laying off experienced executives and managers who were making upward of $100,000 a year and have capital to invest, says Monroe. "Where are they going to find a similar job at 50? They can try to get a new job or buy themselves a job—a business or a franchise. If I were a franchisor, I'd be promoting heavily right now. The pandemic did purge the system of weak operators and units, so a lot of good real estate opportunities became available."

CAUTIOUS LENDERS

Lenders also must navigate carefully in a time of uncertainty. "Most are asking for more forecasts, backlogs, and 2021 projections—a newer requirement, versus last year's tax returns," says Sam Scharich, director of business development at Small Business Deal Advisors—yet another factor in stretching out deal timelines.

Still, says Monroe, "This is the greatest time in the world to be a buyer or seller. Interest rates are as low as they'll ever be, so you can buy more business for the same dollar." He compares potential franchisees to house shoppers. "People don't buy houses based on price, they buy them based on the monthly payment."

"There have been historically low interest rates for quite some time," says Zuccarello. "It's been a great interest rate environment for several years. I don't see that changing."

And while interest rates for capital to fund expansion have remained low since March, each new deal still is problematic for lenders, who must factor in all the uncertainty, past, present, and future as Covid continues to rage in early 2021.

Flynn points out another reason for deals taking longer: banks are still dealing with the forbearance they gave borrowers in 2020.

Scharich also notes the uncertainties still remaining around PPP loans regarding repayment, forgiveness, taxes, accounting, and legal paperwork, which can drag out deal timelines even further.

YEAR OF THE DRIVE-THRU

Drive-thrus in 2020 provided a big competitive advantage to restaurant brands that already had them, or that were able to add or build them quickly. Drive-thrus also have permanently changed the distribution model for food franchises, says Davis, accelerating the adoption of an existing trend by 2 or 3 years.

"You can see it when you're driving, with long lines at the drive-thrus," says Stein. Drive-thrus, he says, allow home-bound consumers to be out doing something—but safely from inside their

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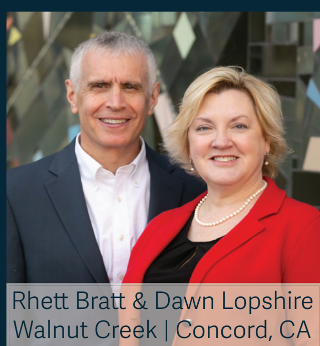

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vehicles as food brands ramp up and promote their "contactless" service at the drive-thru window, in the parking lot for pickup, and for home delivery.

"If you have drive-thrus and a delivery system, you're doing great. If you're a sit-down, you're probably getting killed," says Stein.

Flynn says that his Applebee's were well-positioned going into the pandemic, with dedicated parking spaces for customers to pick up their order or have employees run it out to their car. "We already had the technology in place," he says. He also emphasized the importance of marketing that capability to let consumers know your stores have a good online ordering and payment system in place.

"The digital aspect is very important," says Davis. "Those already functional digitally, where customers did not have to interact with employees, clearly are the winners."

Covid also has accelerated the trend of both franchisors and franchisees investing in delivery technologies with Doordash, Uber Eats, and a plethora of local delivery services. To reduce the cost, some brands are working on a "hybrid" model, expanding their online reach through the third-party websites, but delivering it themselves to control the "last mile" to the customer's door and ensure that brand standards and food quality are maintained. The delivery model is still evolving, with the jury still out on how much of this shift will be permanent if-and-when Covid finally recedes and people start eating out again.

2021 OUTLOOK

"I think there's going to be a tremendous amount of opportunity in 2021," says Zuccarello. "Given what we've gone through, the natural tendency for buyers will be caution. I think that folks who tend to see the future, see down the road, will make some tremendous acquisitions."

On the seller side, he says, people who had a good run before and through Covid might want to look really hard at this situation as well. And on the acquisition side, he thinks there will be a lot of opportunity. "It will be a different dynamic when buying a business, but people who have the capabilities and like to do deals will be back at it."

"Over the course of my career, the best buys we've made have been when other people aren't buying," says Flynn. "I'd advise people to take a very long-term view and, if you can, use the opportunity of a crisis to buy at a lower price. It's probably worth the risk."

"For me, there's always been a difference between risk and uncertainty. Uncertainty is you can't measure it, it could go either way. Risk is the removal of uncertainty and can be analyzed," says Robins. "I can't measure the risk. So it makes investing for the future uncertain."

So is it a great time for buyers and sellers? "I don't know if that's correct," says Flynn. "The financing markets are not totally stabilized yet, making it very difficult to understand and value companies until things settle down." ■

Editor's Note: At press time, the acquisition by Flynn Restaurant Group (FRG) of approximately 1,150 franchise units from the disposition of NPC International's Chapter 11 filing had been approved by the franchisors involved (Pizza Hut and Wendy's). Subject to court approval, the reported $800 million-plus deal includes more than 925 Pizza Huts and about 225 Wendy's units, giving FRG a total of more than 2,350 restaurants with $3.5 billion in annual sales.

Final Advice

"Everybody thinks there are bargains galore, but that's just not true," says Stein.

Don't base your decisions going forward on the pandemic thought process, says Monroe. "Life is not linear. What's permanent? I would be concerned about building ghost kitchens, or coming up with a new brand. I'm a brand guy. People buy brand equity."

"Deals are probably going to take more time," says Davis. "There's less certainty and less debt availability. So do your homework with your lender and make sure they're supportive. And be creative! Get some conversations started if you want to buy. Don't wait for the deals to come to you. Try to be proactive and go after the opportunity. Sellers are motivated to move quickly, and sometimes a preemptive offer is more attractive than going through an elongated sales process."

As ever, if you're looking to sell, "Be sure your house is in order, with clean financials, documentation, and an annual forecast," advises Friar. Speak with M&A advisors, financial advisors (tax, retirement, timing), attorneys, and discuss the psychology of selling with anyone and everyone who might be affected, from partners to lenders, family to friends. "The M&A process is still very new for many sellers, so it's good to start well in advance. Look at your retirement plans and timetable and tax consequences a year or two before you even go down this road."

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Proper Orientation

2 great tips for training and retaining employees

Written By
JOHN DIJULIUS

Early in my career I had the pleasure of attending the Disney University in Orlando, where I took Disney's Approach to People Management course. Where better to learn how to create a world-class culture than Walt Disney World. The concepts and principles I learned there totally redefined how both my companies, John Robert's Spa and The DiJulius Group, created our corporate cultures and helped us build a strong internal culture with highly engaged long-term employees.

ORIENTATION IS CRITICAL

A critical part of a new employee's career is their orientation into the company. Psychologists have shown that during periods of orientation, people are particularly susceptible to adopting new roles, goals, and values.

Your new employee orientation training should not be about policy, breaks, and where the bathrooms are. Rather it should be an emotionally compelling orientation into the company's values, mission, purpose, and storytelling. The story of why the organization was created, what wrong was being made right. The company's backstory and early days. Its struggles and how it overcame them. The rags-to-riches stories of today's rock star employees who started years ago at entry-level positions. Where the company is today and the amazing place it is headed (vision of the future). And, most important, the vital role new employees can play in helping the company achieve that and what's in it for them.

As Howard Schultz once said, "Most people come to work for a company having had previous work experiences. In many cases, their experience has been bad. As such, they enter with cynicism, and the burden of proof is on leaders to demonstrate that this is a different place."

So how do you make your orientation training fun and exciting, where your new employees go home bragging to their family and friends about the amazing organization they just joined? Here are two of my favorite best practices.

SCAVENGER HUNT

Most new employee orientations spend a great deal of time covering all the boring policies and procedures of what not to do to avoid getting fired. While some of this information must be covered, Nemacolin Woodlands Resort, a Five Diamond property in Pennsylvania (and a former client of The DiJulius Group), had a very clever way for that information to be learned instead of sitting in a classroom.

I have learned many techniques from working with Nemacolin. One of my favorites is the scavenger hunt they have their new associates experience. It is a competitive scavenger hunt on this huge resort where each new associate has a list of 50 things they have to discover, find the answers to, and take pictures of. In the course of the scavenger hunt, I realized two things: 1) it is a lot of fun, and 2) the new associates are learning a lot about the history of Nemacolin. What a great idea!

Any time I hear a great idea, I replicate it within my organization. Both my organizations' orientations now include a scavenger hunt across all our locations. We take a group of new employees, typically 8 to 12 in a group, pair them up, give them a list of about 30 things to discover or find the answers to, and have them get pictures of every item on the list. This achieves many things: the new employees have a great deal of fun; they work with another team member; they learn a lot about our culture, legacy, and heroes; and they visit all our locations and meet many existing employees who go out of their way to help the new employees get their answers and pictures.

RE-ORIENTATION

I learned another great lesson from working with The Ritz-Carlton Hotel Company: they put all their existing employees through the orientation process again. I immediately brought this idea back to my companies, and we instituted a re-orientation for all our existing employees every other year. If you were hired in 2017, you would retake our orientation training in 2019, 2021, etc.

Mixing experienced employees with new hires has had so many incredible benefits we didn't even anticipate. During key points in the orientation, experienced employees share great testimonials, telling stories of what it was like when they joined the company. This immediately creates a bond between new and seasoned employees, which results in new employees having friends at work, and reduces the typical anxiety of being a new employee.

Most of all, it reinvigorates our seasoned staff. Many experienced employees have expressed great surprise at how much the orientation has improved, and how much of our legacy they had forgotten about. They are reinspired by our story—where we came from, what it took to get us here, and where we are headed. ■

John R. DiJulius III, author of *The Customer Service Revolution,* is president of The DiJulius Group, a customer service consulting firm that works with companies including Starbucks, Chick-fil-A, Ritz-Carlton, Nestle, PwC, Lexus, and many more. Contact him at 216-839-1430 or info@thedijuliusgroup.com.

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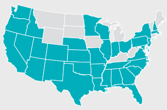

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5 Tips for Adapting Your Operations

Managing retail locations in a pandemic

Written By
BLAKE PINARD

As we enter 2021, it's safe to say that things will not be getting back to the previous normal any time soon. As consumers and businesses adapt to the next normal, plenty of unknowns remain. Covid-19 cases are spiking across the country with more shutdowns looming and a federal stimulus package still in political limbo as I write. And it remains to be seen what impact the Biden administration will have on the national economy, or when the promised coronavirus vaccines will become available on a mass scale.

But there is good news. According to Visa's "Back to Business Study," more than four in five (86%) Americans planned to shop this holiday season, and the majority (60%) indicated they would do half or more of their winter holiday shopping at local retailers. Further, non-retail franchises have continued to see bounce backs, with pizza stores thriving during the shutdowns, while online ordering for in-store pickup has helped sustain businesses that otherwise would have been unable to continue operating under these circumstances.

While we've come a long way since March, franchisees must continue taking the necessary steps to optimize operations in the face of quickly changing conditions. With this in mind, here are five actions franchisee leaders can adopt to meet demand, remain nimble, and adjust to the realities of this upcoming year.

Keep your customers in the know.
For franchisees with brick-and-mortar locations, it's imperative that potential customers know your operating hours and open locations. It might seem simple, but keeping your website updated and factually accurate is more important than ever for customer satisfaction, safety, and convenience. Additionally, all locations should clearly inform customers of their safety and hygiene protocols by posting these details both online and onsite.

Reconfigure your layout.
To help customers practice good social distancing while they shop (6 feet), you may need to adjust your interior space. Designating one-way aisles and spreading out display racks can create space between shoppers. Savvy managers can also explore how to use unoccupied space in the store, as well as strategically place popular items to eliminate unneeded crowding. Consider putting those items close to the entrance so people can quickly get what they need and make room for others. Finally, if the weather permits, open doors or windows to bring fresh air into the store.

Adopt contactless and mobile pay technology.
A key way to minimize bottlenecks and overcrowding is by equipping sales staff with mobile checkout devices to ring up buyers on the sales floor, rather than having them line up at a main cash register area. If possible, ensure that all of your checkout stations can process contactless transactions from mobile phones (Apple Pay, Google Pay). As an added bonus, these offerings are closely aligned with what consumers want in terms of a buying experience. In essence, you're giving them increased convenience alongside safety.

Focus on flexible solutions.
To compensate for not being able to operate at full occupancy, consider extending your hours of operation—giving customers a broader time frame for shopping. If you have the resources, drive-thru ordering and pickup are additional options that promote social distancing, while also increasing the availability of your services beyond the number of customers allowed in your physical stores. Additionally, some businesses across the U.S. are experimenting with QR code window shopping to sell to customers outside of their storefronts. If limited inside space is problematic (and you operate in a warmer state), consider taking your business outside.

Hire to meet demand.
One of the biggest challenges in the upcoming months is that we don't know what consumer demand will look like. This makes it significantly harder to staff compared with years past—especially when you consider the possibility that additional restrictions could arrive (or be lifted) at any time, affecting the number of personnel and customers allowed in locations. To deal with this uncertainty, franchise managers must adopt protocols and policies that allow them to staff on demand, whether by implementing a technology-powered staffing solution or having personnel on standby during anticipated times of heavy traffic. ■

Blake Pinard is General Manager of Shifts at Snagajob. For more information, visit snagajob.com.

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Boost Your Business with Benchmarks

Measure, understand, and get it done!

Written By
BARBARA NUSS

To build value, your business must continually change, adapt, and improve its efficiencies. A culture of continuous performance improvement creates more profit now and more wealth in the future. When building a better business and improving profit and wealth is your goal, measuring performance is your starting point.

- **Measure** what is important: the key benchmarks and drivers of success.
- **Understand** what your numbers say about your business and where you could improve.
- **Get it done!** Identify actions and create targets and accountabilities that lift business performance.

Faced with so many possible metrics, it can be challenging to identify which are most important in your business. Start by monitoring metrics that help you focus on the *activities* that produce the results you are after. This recipe for performance improvement begins with measuring the drivers of success for your business model—metrics that give objective feedback and help you answer the following questions.

How efficiently do you drive sales? Are you growing your customer base through effective marketing and lead conversion? How frequently do customers buy and at what average ticket price?

How productive are you? Do you manage your resources (e.g., staff productivity, inventory productivity, or equipment utilization) as well as you should?

How much profit are you earning? How do your gross profits and net profits compare to the best in the business, or to your own best year?

How well do you manage cash flow? Consider ratios that measure liquidity and working capital efficiency. These include the lag between service and invoicing, how quickly you collect accounts receivable or turn inventory, and metrics that indicate whether you've paid lenders and suppliers on time.

How financially strong are you? Consider ratios that measure your debt levels, such as equity invested by owners compared with money borrowed from creditors. Asset efficiency (sales to assets) and ROI are also indicators of the strength of your financial position.

BENCHMARK YOUR BUSINESS

Once you have calculated your metrics, the obvious question becomes, "Is my number good, bad, or terrible?" That is where benchmarking comes in. Benchmarks add perspective.

A benchmark is a point of reference from which measurements of any sort can be made.

Benchmarking your business is the process of comparing your figures to the numbers you would like to achieve. Here are some ways you can establish benchmarks for your business.

Past performance. To get a sense for trend, look at a minimum of 3 years' history; up to 5 years if it is relevant. You can even use your "best" year as your past performance benchmark.

Actual results to budget, target, or goals. When you compare actual results to budgets or targets, you're benchmarking against where you want to be. You can then investigate the difference or variances from what you planned and refocus your actions as needed.

Industry averages. Industry benchmarks can be useful to assess how you stack up compared with your competition or to other businesses like yours. Beware: these benchmarks are sometimes derived from dissimilar companies because they use broad industry classifications. For example, home health care providers that provide skilled nursing services may be combined with providers who provide only companion care. These are quite different businesses that share the same industry classification. Average figures may not be useful for either.

Franchise benchmarks. A franchise that produces and shares financial benchmarks based on actual system-wide performance provides a competitive advantage to its franchisees. Because all the data points come from companies operating with the same business model, the results can reliably demonstrate what can be achieved through peak performance. And because the "data points" are real results earned by real people you know, you can actually talk to the best in the business to learn *how* they are gaining their profit advantage.

WHAT'S NEXT?

Now that you have the numbers, what's next? These five steps will transform your analysis to action:

ASSESS Performance
PRIORITIZE Issues
BRAINSTORM Ideas
MEASURE Goals
ENGAGE the Team

Comparing your metrics against benchmarks gives you perspective to *assess* what you're doing well or not so well. Then you can *prioritize* your issues and *brainstorm* with your team to develop solutions and action plans. Armed with perspective, priorities, and plans, you can set measurable *goals* and *engage* your team by communicating expectations and accountabilities.

With these five steps, benchmarking can have an impact far beyond the accounting department. With proper commitment, communication, and leadership, benchmarking has the potential to reform all levels of the company, modify processes, reveal flaws in what were previously considered inherent truths, and confirm improvements achieved. Used strategically, benchmarking can transform not only the business, but the product or service itself, the corporate culture, and the attitudes of employees.

Now, envision that it's December 2021 and you are about to stand up and thank your team for a job well done. As you reflect on where you've been in the year, you say to yourself, "Everything changed when we really embraced managing by the numbers, setting stretch goals with rewards and accountability, and being clear with the entire team about our financial expectations." ■

Barbara Nuss, CPA, is the president and founder of Profit Soup, a financial education organization specializing in providing services to franchisors and franchisees to enable them to trust their numbers, focus on priorities, make better decisions, and earn more profit. Learn more at www.profitsoup.com or call 206-282-3888.

Family First

Tips to make the family business succeed

Written By
CHARLES BONFIGLIO

The mom-and-pop shop is an iconic business model, with people proudly displaying their family-owned business status. Many of these businesses have grown and thrived for decades. Others, well, not so much.

There are still a lot of misconceptions about working with family. Some people can't imagine how you'd work with family members without ending up in a fight or worse. Or they've had bad experiences with family-owned business models that fell apart. But I know from personal experience that working with family can be rewarding, boosting the growth of your business and setting you up for future success.

If you do it right, that is. Here are a few of my tips for how to make it work.

GET CLEAR WITH EACH OTHER

There's no surefire way to work well with family, but in my opinion the goal should be to remain in a relationship even if things don't work out. It starts with clear communication. Sit down and talk about it, making sure your short-term and long-term goals align with each other.

Set expectations and get them in writing, just as you would with any employment agreement. Include job descriptions, payment, and a clear time frame to evaluate the relationship and see if you want to continue. Add a plan in case you decide to part ways, to make sure it is an amicable transition that happens over a reasonable time period.

Does this seem too formal for a family arrangement? It's not. One of the benefits of working with family is that you already have a trust relationship with these people. However, that same relationship can sometimes mix the personal with the professional. It can be difficult to address issues in a professional way. Putting it in writing establishes a relationship of professional respect between you. If you just wing it with no expectations, you're probably going to grow apart.

VALUE THEIR CONTRIBUTIONS

Don't hire family members for convenience. Instead, hire them for mutual success. Everyone brings a set of skills and personality traits to the table. Be sure you recognize the value of your family's contributions and treat them like the professionals they are.

My wife Jeanette and I have been working together for decades. She is now CFO of Tint World, and the professional side of our relationship works because we've defined our roles. We've aligned what we do with our talents and passions, and we really like staying in our lanes. We don't tell each other how to do our jobs. It's a relationship of respect in which we're each appreciative of the other's talents. We place value on those talents, and that helps us keep a good working relationship.

Another way to value family business partners is to pay them what they're worth. If you're looking at your family members as cheap labor, you're doing it wrong. In the beginning, when you're scaling up your business, it may be easier to work with family on the understanding that you're paying them less, but people in your family want to get paid like anyone else. If you're starting small, plan on growing together.

PLAN FOR THE FUTURE

I know many people who open their own business concept or franchise location with the idea of passing it along to their children. Both of my children have worked in Tint World headquarters, and one day, if one of them showed the desire and ability to step into my role, I would help them take that step.

But that's not the only future family businesses should count on because there are a lot of ifs involved. Your kid has to want your business, "get" your business, and be capable of running your business successfully. Succession planning is important, but leave yourself room for many options.

Plan a succession that can pivot depending on circumstances. You should always build your business as though it's ready to sell. Put two or three options in place so your kids aren't your only path forward.

KEEP FAMILY TIES INTACT

There's a lot to gain from going into business with your spouse or other family members. But there's a lot to lose if you get it wrong. When you're planning a family-owned business, be sure to put family first. If you don't, you could do damage to more than your finances.

With plenty of mutual respect, communication and clear expectations, you and your family can build something great together. Start strong, work smart, and don't forget what really matters. ■

Charles Bonfiglio is president and CEO of Tint World, a provider of automotive, residential, commercial, and marine window tinting and security film services. With Automotive Styling Centers in the U.S. and abroad, each franchise location houses approximately 20 profit centers, ranging from in-store accessory installations to offsite sales and installation.

Vacant or Unoccupied?

Your insurance agent wants to know!

Written By
DOUG GROVES

One unforeseen result of the pandemic that should be a real concern to franchisees is understanding whether your location is "vacant" or "unoccupied" if it is closed temporarily or permanently because of Covid-19.

While some businesses continue to operate successfully, many have closed temporarily, while others have sadly closed, never to reopen. For restaurants and bars in particular, some have been mandated to fully close and some are only partly open or operating solely as to-go locations. As a result of these mixed scenarios, occupancy status for insurance purposes is something that must be on the radar of franchisees, licensees, operators, and small-business owners.

Most businesses have experienced the effects of the pandemic and are working to innovate solutions. As insurance professionals, we often come across businesses and franchises in that innovation process and have discovered there is some confusion between what qualifies as "vacant property" and what is considered "unoccupied property" when it comes to coverage. This is proving true among many smaller franchised operations and privately owned businesses, where there is less guidance as to how these issues can affect property insurance.

Property insurance, whether for personal or commercial property, normally has limitations on vacant or possibly unoccupied property as to fire, vandalism, burglary, theft, and water damage. Each property insurance policy can and does read differently. It is critical to notify your insurance agent, in writing if possible, should your leased or owned property become vacant or unoccupied, and the effective date of that status. Your agent will be able to analyze your specific policy and assist in determining the status of your property from an insurance standpoint.

Typically, unoccupied property describes a location that someone or a business intends to return to, whereas a vacant property is one nobody intends to return to. Your insurance agent can help you with either situation. In most cases, this condition of vacancy or being unoccupied can be triggered in as short a time as 30 to 60 days, but it is totally dependent on what the individual insurance policy says.

Some coverages can be limited very quickly if utilities are not left on to protect the property from freezing, mold, or water damage. Also important is the amount of furniture, contents, and products that remain in the building as a consideration for the insurance company to understand if the location is merely unoccupied or if it is deemed vacant. Your experience with an insurance company can go much more smoothly if your agent is kept current on your plans and actions, particularly if there is a claim or loss.

In commercial properties, percentages of tenancy can affect coverage, particularly if the property falls below 30 percent occupied, another reason it is important to notify your agent of your occupancy status. The agent can and should be able to counsel you about vacancy insurance waivers or recommend policies that are designed or written for this type of situation. If you are dealing with shuttered property, it is important not to make it worse by risking an uninsured loss and further financial hardship.

ACTION STEPS

Our recommendations to determine the status of your property coverage are:

1. Work closely with your insurance agent.
2. If possible, keep the utilities on and monitor your location frequently.
3. Do not abandon the property; keep contents on the property until you have thoroughly reviewed the situation with your agent and landlord.
4. Read and know your coverage.
5. Most importantly, notify your insurance agent of any changes of occupancy or change of use for a property.

Whether you own or operate a franchise or a small business, this easily overlooked insurance issue can become a big problem—or less of one if you take these actions now toward a more secure and successful future. ■

Doug Groves is the founder and principal of Program Insurance Group and its affiliate EZ Cert Management. He specializes in working with franchises and has more than 30 years of experience in the insurance industry.

> "Many property provisions contain a vacancy provision. Two similar terms—vacant and unoccupied—have specific meanings in the language of insurance and are specifically defined in some policies. A vacant building contains little or no furniture or other personal property. Even if it is not vacant, a building is unoccupied when people are absent. The wording in many property insurance policies limits, reduces, or entirely eliminates coverage when a building has been vacant (or, in some forms, vacant or unoccupied) for a designated period of time such as 45 or 60 days."
>
> —International Risk Management Institute

AD INDEX

Crystal Ball Gazing

Investment strategies for 2021

Written By
CAROL M. SCHLEIF

"The most reliable way to predict the future is to create it." —Abraham Lincoln

We have always hated Wall Street's year-end ritual of pulling together predictions for what is likely to transpire in the coming 12 months. It seems similar to New Year's resolutions—a useful process for organizing thoughts, but seldom with any lasting impact or truth. This notion was well summed up in one of the best memes we saw recently: "WORST PURCHASE EVER—a 2020 planner."

Recall that as 2020 kicked off, markets were hitting new highs while the unemployment rate was plumbing multi-decade lows. Confidence (consumer, business, investor) was high and the economy was hinting at a continuation of the longest economic expansion in recent memory. Business owners were looking forward to reasonable growth and low inflation. No one we know was looking for a global pandemic leading to government leaders around the world pulling the "emergency brake" on virtually all economic activity, in turn producing the sharpest recession ever recorded.

Surprisingly, despite the dire economic statistics throughout the summer and early fall, markets rapidly found a bottom, staging a rebound that carried them to new highs by year-end. Solid markets and low interest rates prompted a feeding frenzy as a record dollar amount of IPOs were floated and M&A activity escalated. All this, even as the number of Covid-19 cases soared through year-end. Altogether, 2020 was a predictor's nightmare. On the other hand, for those with a diversified portfolio, well-defined investment objectives, an ability to rebalance actively, and a rock-solid stomach, the year provided many opportunities.

As 2021 starts, despite an aversion to prediction, we do think it makes sense to spend some time thinking about what might be the longer-term impacts of what 2020 has wrought. Below, we've outlined 1) what could go right; 2) what could go wrong; and 3) how an investor could adapt and craft a resilient plan. The lists are meant to be illustrative, not all-inclusive, and hopefully will spark some insights and soul-searching relative to your own situation.

WHAT COULD GO RIGHT

The Fed has communicated on numerous occasions that it intends to remain accommodative for an extended period. Further, it has stated unequivocally that it has many tools at its fingertips to fulfill this objective. The adage "Don't fight the Fed" seems to be ringing loud and clear on Wall Street.

- Covid-19 vaccines could continue to roll out seamlessly with herd immunity taking hold around the globe.
- Consumer confidence could continue to ramp up as businesses reopen, activities resume, and life creeps back toward a new normal.
- The creative destruction caused by the pandemic could spread, spawning new and innovative business models as working, shopping, recreational, and living arrangements change.
- Previously "comfy" middle managers shed from larger companies could start an innovation boom, much like that witnessed after the late-1980s LBO craze (setting the stage for the 1995–2000 stock market boom).
- Thousands of workers could continue to take advantage of retraining offers to launch new careers in the 21st century's most promising fields.
- Relocations to more rural and lower-cost locales could keep the housing business strong.
- Travel and hospitality could resume, perhaps even enjoying a surge from pent-up demand as all those postponed marriages, graduations, and other life events are celebrated.
- Businesses that pivoted business models, supply chains, and corporate structures could continue to prosper as the recession cleared the decks and accelerated many trends already in play (telemedicine, online shopping, WFH, online education).
- A split Congress could stymie any efforts to raise corporate or individual taxes.
- A new administration could initiate job-creating projects in such areas as infrastructure, green energy, battery technology, space travel, and medical technology.
- The reshoring trend could continue to accelerate, benefiting many locales and small tangential businesses.

WHAT COULD GO WRONG

- The incoming administration could move to raise corporate taxes and/or increase regulation.
- The Fed could withdraw fiscal support too early—or too late, allowing inflation to creep into the system and take hold.
- There could be glitches in vaccine rollouts, or in sustaining immunity even after inoculation.
- The inequities exposed throughout the system, from access to technology, capital, resources, jobs, etc., could keep businesses on their toes learning how best to adapt and respond.

WHAT TO DO ABOUT IT

- Have clearly defined investment objectives that include ranges for broad asset classes.
- Consider making "cash and equivalents" one of your asset classes, even though yields on it are essentially nonexistent.
- Maintain a diversified portfolio.
- Rebalance regularly. Many firms will put this on autopilot for you, or set calendar reminders. Revisit between scheduled dates if markets move sharply up or down.
- Invest globally. Demographics, trade flows, lower valuations, and expanding markets all augur well for global economic and market activity.
- Read broadly for perspective, but turn off the daily market feeds.
- Resist the urge to check balances multiple times a day, or week, or even month, especially when markets are volatile. Such checks can lead to undue worry and an inclination to "Do something! Anything!" when markets move sharply. Numerous studies point to lower returns for the most active traders.
- In a similar vein, be wary of online trading apps that "gamify" trading. There is a difference between trading and investing. Be a long-term investor! ■

Carol M. Schleif, CFA, is a senior investment, communications, and business strategy executive. Previously, she was deputy chief investment officer at Abbot Downing, which provides products and services through Wells Fargo Bank. She welcomes your questions and comments at carolschleif20@gmail.com.

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Capital Ideas for 2021

Are you ready for post-Covid growth opportunities?

Written By
CARTY DAVIS

As we continue to experience the effects of managing through the Covid pandemic, we are beginning to see how the post-Covid landscape is evolving, how owners and operators can prepare, and what we can expect from lenders and other capital providers as we emerge. In the short term, as Covid cases continue to rise in most parts of the country, stay-at-home orders are expanded, indoor dining restrictions are increased, and with winter weather limiting outdoor activities, the restaurant industry is facing another difficult and challenging period. At the same time, we are starting to see signs that Covid could start to subside in the first half of 2021 as the mass roll-out of vaccines takes shape.

As government relief efforts including PPP, EIDL, and the Main Street Lending Program appear to be winding down and tax and forgiveness issues become more certain, owners and operators should shift their focus to managing capital structures and borrowing requirements for a post-Covid world.

Just as brands and franchisees have had varying levels of success throughout Covid, performance among lenders and other capital partners also has varied. We continue to see signs of winners and losers among capital providers, which creates both challenges and opportunities for borrowers and operators. Franchisees should prioritize finalizing and reviewing capital needs for existing operations, image and drive-thru upgrades, new development, and the latest focus: site conversions.

In addition, acquisition-minded franchise operators will see a host of opportunities including distressed and turnaround situations, market- and geography-driven bolt-on acquisitions, and franchisor-influenced deals. These opportunities, combined with diversification alternatives in different brands and markets, necessitate a thorough review of your existing capital structure and potential alternatives.

The key question is: Can your existing capital partner(s) support your growth plans for upgrades, new unit development, and acquisitions? We highly recommend finalizing your long-range capital plan as a prelude to a review of your lender and capital relationships. Many lenders have stated it is business as usual for existing clients and new credit opportunities. We are witnessing a clear delineation in what opportunities lenders will underwrite or even consider versus what their public statements indicate.

If you don't have a drive-thru, an established off-premise sales platform, and solid sales and EBITDA performance throughout the pandemic, your future borrowing capacity may be limited. Borrowers can expect lower leverage advances, higher pricing spreads, and tighter covenants. For new unit development and acquisitions, higher cash equity requirements will be the norm. In reviewing capital plans with credit and capital partners, it is important to understand how your capital partners view the new landscape, how they will support your business, and whether the time is right to search for a new financial partner.

LASTING CHANGES

In many cases, franchise owners have been able to delay tough conversations with capital partners as short-term liquidity has been enhanced through PPP loans and deferrals from franchisors, landlords, lenders, and other vendors; and franchisors have delayed development requirements. These factors have put off new credit requests and capital demands. Depending on the segment, we anticipate increasing capital requirements and facility upgrades as brands and operators focus on refining their off-premise sales platform through delivery, takeout, and drive-thru capabilities to meet the evolving customer demands.

We see a permanent change in customers' expectations for convenience and flexibility in terms of dine-in, drive-thru, curbside, and delivery. In addition, as real estate markets evolve and new and different conversion opportunities emerge from closed locations, credit demands will increase and evolve. All these developments should be addressed with debt and equity partners to gauge their interest in supporting the capital demands, and at what level.

As operators review their overall capital plan, relationships, and alternatives, the conversation should not be limited to lender relationships. With changes in the economic realities of your business, this is also an ideal time to consider other opportunities in your capital makeup. Real estate portfolios may have opportunities to exercise purchase options. In other cases, the sale of real estate can allow franchise owners to buy out partners, accelerate development, or pursue an opportunity that was unavailable pre-Covid. In addition, as the post-Covid landscape becomes more certain, there will be continuing opportunities in your real estate portfolio to renegotiate leases or relocate units to better locations within a trade area.

As operators review alternatives for acquisitions or the sale of all or part of their business, it is important to be ready and review conditions necessary to complete transactions. Be especially careful of quality of earnings (QE) reports and requirements in 2021. CPA and financial firms producing QE reports will have an especially difficult task as 2020 QE reports will be subject to adjustments and projections on run rate sales and EBITDA. Focus on the scope of the QE report and how performance will be adjusted based on Covid. Expect higher incidents of re-trading and price adjustments based on the results of these reports.

REVIEW

In summary, as we evolve into a post-Covid world, focus on your capital structure. What worked before Covid may not be an ideal scenario today. Plan a review into all capital relationships, and consider all alternatives, including senior and junior lender options, equity partners, and real estate portfolio alternatives. Ask questions and present hypothetical opportunities to credit and equity partners. The current environment necessitates these discussions and dialogue. Put your plan together and start the conversation. ■

Carty Davis is a partner with C Squared Advisors, a boutique investment bank that has completed hundreds of transactions in the multi-unit franchise and restaurant space. Since 2004 he's been an area developer for Sport Clips in North Carolina with more than 70 units. Contact him at 910-528-1931 or carty@c2advisorygroup.com.

Tread Carefully

So many unknowns call for patience

Written By
DARRELL JOHNSON

I can summarize this article in one word: patience.

Most economic downturns reward early movers. This one makes early expansion and/or acquisition more difficult to get right. The reasons are many, but they all point toward a new type of economy functioning by modified sets of rules. Until those rules are understood, adding new units and acquiring units from others is much riskier than in past downturns. Pre-crisis unit demand, financials, and even operations do not make a good set of assumptions for predicting future performance of a unit. Consumer patterns have shifted, creating a new set of behaviors. If you guess wrong, you will be investing in a unit that won't perform to expectations.

Let's start with the biggest driver of economic activity: consumers. A majority of the more than 2,000 people surveyed by Jones Lang LaSalle said they want to continue working away from the office at least two days a week; only 26% want to do it full-time after the pandemic passes. Weekday consumer buying behavior will be altered long term. Further, we have forced online purchasing into everyday life.

Again, consumer buying behavior will be altered long term. On the retail side, where should you put a physical location and how should you configure it when you don't know how consumer patterns will play out yet? Will they return to pre-crisis behaviors? Perhaps partially, but it's very unlikely the post-crisis economy will look the same.

Let's turn to existing business resales. Many single-unit and smaller multi-unit operators depended heavily on the PPP program. More than 5 million loans worth more than $525 billion were extended. It bought time. Did it buy enough time? Since the program ended nearly 4 months ago, the need for pandemic recovery funds has increased.

According to a recent study published by the National Federation of Independent Business, about half (52%) of small-business owners anticipate needing additional financial support over the next 12 months, and 75% say they would apply or consider applying for a second PPP loan if it were made available to them. Only a little over 1% of PPP recipients have requested forgiveness so far, a barometer of difficulties they are experiencing as many are hoping for additional funding. Sure, some sectors gained in sales, but most didn't—and for those that did gain, the question is whether it is sustainable. Unit models are in a state of flux right now.

NEW MODELS CONTINUE TO APPEAR

By extension, what this tells me is that competition won't look the same a year from now. When we see disruption as we did in the Great Recession, new brands entered the market with different offerings. They went after your customers, more often seeking new consumer demand. New models emerged, such as the co-working style business model in hair care, where franchisees rent chairs to independent contractor stylists; and a flood of new fitness brands that more narrowly targeted consumers than the big box gyms.

Our own research for clients clearly shows this crisis will have even more dramatic changes to what you consider competition today. New entrants will come to market with offerings adjusted for a post-pandemic economy, often with a much bigger technology integration. Some franchise brands that were your previous competition will be internally focused for the next few years as they stabilize their systems and modify their offerings. All of this will take a few years to fully understand. It's not your typical recovery where returning to pre-crisis mode was expected.

INVESTMENT CAPITAL CHANGES

Lenders are telling us they clearly prefer to do "safe" deals in this environment. Into the third quarter, they were still focused on getting PPP money out the door under the umbrella of federal guarantees. Since then, they have returned to traditional credit risk assessments. Their underwriting requirements reflect a tightened credit box aimed at new money going into lower-risk deals, including raising the minimum FRANdata FUND Score a franchise system must have for a deal to get done. This is predictable cyclical lender behavior.

Investment capital also is shifting. Private equity put a lot of money into food and fitness brands. Now there will be a disproportionate concentration in services, especially residential. We're seeing a lot of interest from our PE clients in brands focused on the home. They are building residential services platforms and beginning to acquire brands less developed than in the past.

With new platforms able to manage multiple small brands efficiently (at least, that's the theory), buyers are paying less attention to franchisor management. The thinking is that the platform management structure can fix any problems. That's likely to lead to a period of franchisor management instability you should factor into your brand due diligence.

CONCLUSION

All of this leads me to a single conclusion. This time around in the economic boom/bust cycle, going a bit more thoughtfully, doing more research on consumer behavior changes, more diligence on how a brand's offering is being adjusted and supported, and a more thorough assessment of how stable the franchise management team is will guide multi-unit growth plans to a better outcome. ■

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

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