Multi-Unit
Franchisee

Q2 | 2021

DEAL OF THE DECADE

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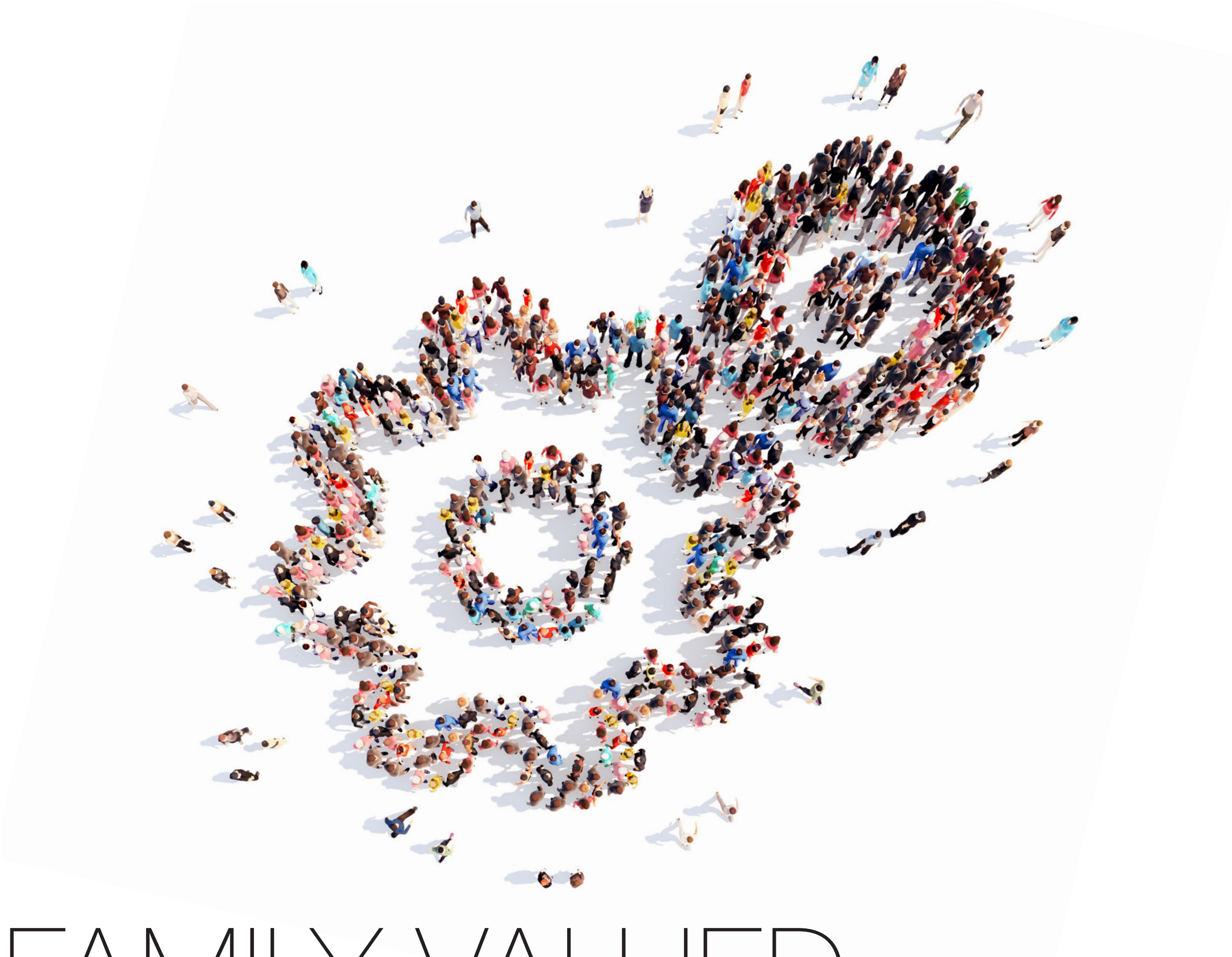

FAMILY VALUED

Sometimes dysfunctional, but always family

Written by **KERRY PIPES**

You can get a sense of Mike Philip's personality when you ask him what his title is and his response is, "Head dishwasher, owner, and president." The 54-year-old is witty and keeps conversation light, but don't be fooled, he is serious about his business—two Einstein Bros. Bagels and 8 Tropical Smoothie Cafes, his employees, and his customers.

"My goal in business is not just to make money, but to help develop and have an impact on people for good," he says.

During the Covid-19 pandemic Philip made some important choices to take care of everyone. "We made decisions to protect our family, our employee family, and our customer family," he says. "No one was laid off and we developed new procedures that kept employees and customers safe when they came in our stores." He says he's proud of his company's "operational culture" where everyone participates in the work and all are held accountable to the same standard.

Philip has been in franchising for more than 20 years, first as a Chili's franchisee and managing partner. He also spent time in commercial and residential real estate as a RE/MAX franchisee. He's been a franchisee with Tropical Smoothie Cafe and Einstein Bros. Bagels for more than a decade, and has served as chair of Einstein's FAC since 2014.

His business has survived Covid and he's projecting his revenue to jump from $7.5 million to $8 million in 2021. But beyond the numbers required to operate a successful and profitable business, he understands how important and how valuable his employees are.

"We owe it to our employees to give them a chance to create financial security and a financial legacy for themselves and their families!" he says.

MIKE PHILIP, 54

Head Dishwasher, Owner, President

Company: Philip Enterprises, Philip Smoothie Enterprises

Units: 2 Einstein Bros. Bagels, 8 Tropical Smoothie Cafes

Family: Alec 25, Adam 20, Abigail 18, JC 16, and Matiss 22 (international family)

Years in franchising: 22

Years in current position: 14

PERSONAL

First job: Newspaper route with 32 stops—when the streets were still dirt.

Formative influences/events: Dad and mom. Every year before school started we went to get one pair of new jeans for that year. They were shrink-to-fit Levi's, those jeans that were so stiff when they were new they could stand up in your closet. They had to be washed, but we only did wash on Saturday morning so I had to sleep in those jeans Sunday night. I wore them on Monday and was so proud of them. I rubbed raw in some unmentionable places but was so happy. I have tried to appreciate the things we have in the same way as an adult and to teach our kids to appreciate the same.

Key accomplishments: Mentored and raised 4 kids… almost.

Biggest current challenge: Evolving my coaching and developing style to accommodate the next generation of employees.

Next big goal: Diversify and add one more brand.

First turning point in your career: When I realized the difference in mindset between an hourly employee and a leader/owner.

Best business decision: Hiring Aaron, my operating partner.

Hardest lesson learned: I can't do everything.

Work week: Ha! I am a small-business owner.

Exercise/workout: I do 50 sit-ups and 50 pushups daily. I'm also in the process of hiking the Ozark Highlands trail with my wife, 165 miles.

Best advice you ever got: My father told me, "Shut your mouth and go to work."

What's your passion in business? To make my goals not specifically about making money, but to develop and have an impact on people for good, and as a result feed and provide for them and their family.

How do you balance life and work? Trust your people, understand that they will fail, offer grace and forgiveness, and learn.

Guilty pleasure: Candy, specifically Caramello.

Favorite book: All of them. Reading is my escape.

Favorite movie: "The Shawshank Redemption."

What do most people not know about you? I only balanced my checkbook once!

Pet peeve: Lack of effort.

What did you want to be when you grew up? Never had something in mind, I just wanted a cool skateboard.

Last vacation: Aruba.

Person I'd most like to have lunch with: Currently Danny Meyer. (Can you help with that?)

MANAGEMENT

Business philosophy: You can learn something from everyone.

Management method or style: Hands-on!

Greatest challenge: Releasing responsibility.

How do others describe you? Stubborn jackass, but a good guy and family.

One thing I'm looking to do better: Not to be so hard on my kids and be a better husband.

How I give my team room to innovate and experiment: Just listen and learn, not all ideas are stupid.

How close are you to operations? I have a dirty apron almost every day.

What are the two most important things you rely on from your franchisor? Maintain brand relevancy.

What I need from vendors: Consistency.

Have you changed your marketing strategy in response to the economy? How? Yes, with the changes in the sales procurement channels we have always tried to keep the relationship with the guest at the forefront. No gimmick, just a relationship of trust that we will provide.

How is social media affecting your business? Social media has helped in getting the message out, brand messaging.

How do you hire and fire? Carefully. I entrust managers to hire employees and our managers are 100 percent hired from within existing staff.

How do you train and retain? We make it a priority and we try to create an operational culture in which everyone works and everyone is held accountable to same level. We are family, sometimes a dysfunctional family, but always family.

How do you deal with problem employees? Very directly. We have a very strict "No Drama" policy. If you are causing drama, then we are having a conversation face-to-face with no delay.

Fastest way into my doghouse: Attitude. Failure happens and is a part of life, but attitude you can control 100 percent.

COVID-19

What are the biggest impacts of Covid-19 on your business? We have always maintained an atmosphere of cleanliness and food safety. We have raised that awareness by 100x.

How have you responded? We have become unofficial contact tracers, and have had to make decisions that protect our family, our employee family, and our customer family. We did not lay off anyone during the height of the pandemic and got to an SOP that enabled employees to work and customers to feel safe.

What changes do you think will be permanent? If you as a restaurant owner didn't have a high level of sensitivity around food safety, you should now!

BOTTOM LINE

Annual revenue: $7 million.

2021 goals: $8.5 million.

Growth meter: How do you measure your growth? Responsible growth balanced with quality of life for all employees, me included!

Vision meter: Where do you want to be in 5 years? 10 years? In 5 years, debt-free. In 10 years, a grandfather.

Do you have brands in different segments? Why/why not? We currently have two franchise brands. But we have diversified into vacation rentals and are currently starting a remodel on a building built in 1892.

How is the economy in your region affecting you, your employees, your customers? The economy has not really been affected, but customer traffic and the sales procurement channel have changed.

Are you experiencing economic growth in your market? Yes, thanks to Walmart, JB Hunt, Tyson Foods, and the industries supporting them.

How do changes in the economy affect the way you do business? There was a time years ago that I had to take money out of a meager savings account to cover payroll. I have always kept the thought that I could be back there someday.

How do you forecast for your business? National and local trends.

What are the best sources for capital expansion? Early on it was through the SBA. Later we began using more traditional lenders.

Experience with private equity, local banks, national banks, other institutions? Why/why not? In the beginning days of our company I asked every local and national bank local for a loan, and before I even finished the question the answer was "NO!" My wife cashed out her 401(k) to cover a down payment for our second store, which was not a wise business decision but it worked out. Now we work with a regional bank and I have a relationship of trust and a true partner in them. We actually invested in the bank.

What are you doing to take care of your employees? I have always tried to make our relationship more than just a paycheck. I want to know about them and how we can help each other navigate work and life. I realize most of them have goals other than making sandwiches, bagels, and smoothies and I try to help them get there.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? The minimum wage in Arkansas is higher than any other state in our region. However, every time we have had an increase it hasn't affected us much. On Jan 1, 2021 the minimum wage went to $11 an hour and our two-week payroll went up $56. It's important to pay fair, treat fair, and expect a fair day's work. That's the balance I want to keep. I have told this story many times to my employees: the statue of Lady Justice depicts a woman holding a balanced scale, and that is what the relationship needs to be. If I am asking you to work extra hours with little notice or pay, or to work harder than others, then you will quit. If I am paying you a lot of money and you are late consistently, you don't do your job, I will fire you. The relationship has to balance!

What laws and regulations are affecting your business and how are you dealing with it? If I plan for the future, the present will be taken care of.

How do you reward/recognize top-performing employees? Cash and public recognition. We give our managers and key employees nights away with their families, wives, significant others. These are things that they wouldn't normally do. We try to make it special and give them a real break from the grind.

What kind of exit strategy do you have in place? Selling to my operating partner. I think part of the reason we promote from within is that I think we owe it to everyone to give them a chance to create financial security and a financial legacy for themselves and their families! ■

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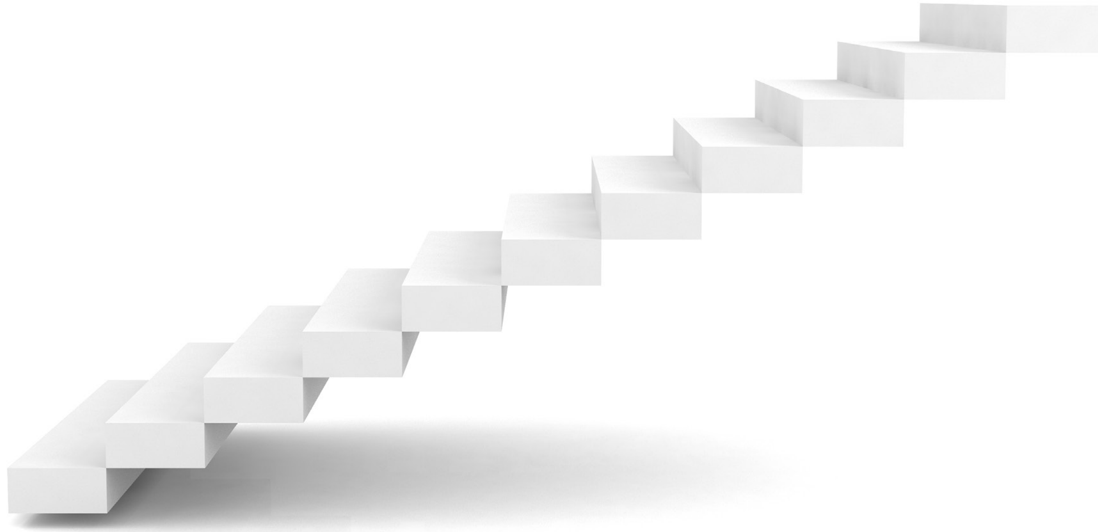

OPERATOR AT HEART

And soon to be a franchisor?

Written by **KERRY PIPES**

Tim Gayhart is a hands-on every day kind of guy. That's how the multi-brand operator describes his work ethic and operating style. "It's important to me that my staff and employees understand how much I care about this business. Because if they start to feel like I don't care, then why should they care?"

The 50-year-old entrepreneur operates 1 Gold Star Chili restaurant and 7 Snappy Tomato Pizza locations in rural Kentucky communities. He also is an area developer for Snappy Tomato and has 13 franchised locations operated by other owners.

From his home base in Walton, Kentucky, Gayhart faced the Covid-19 pandemic, survived it, and is now coming out the other side.

He says the pandemic deeply affected his buffet business, but he also had to overcome increased competition from third-party delivery. "It increased our competition from just what's nearby to including every other restaurant in the delivery range," he says. Gayhart and his team fought back by relying on their drive-thru window service at Gold Star, offering delivery, and promoting their restaurants as safe places to eat and work, which he says gained the trust of the local communities.

Gayhart says he's wanted to be in the restaurant business as long as he can remember and decided at age 14 he wanted to own one. He's done that and more.

He's still an operator at heart and loves staying active in his business. "I don't want to be the stuffed shirt walking into the restaurant. I want to always be lending a hand where it's needed and training my staff to do the same," he says.

Gayhart's career trajectory has progressed from multi-unit franchisee to multi-brand franchisee to area manager. Next up, he says, is becoming a franchisor. One of his goals this year is to purchase Snappy Tomato Pizza. Within a few years, he says, "I'd like to be sitting at the head of Snappy Tomato Pizza and have 100 restaurants open and moving toward 200."

It's all in a day's work for Gayhart. "When you're doing something you love, a job's not a job, it's a part of your life, and that's how I handle all of this."

PERSONAL

First job: I started young, raking leaves and shoveling snow for schoolteachers and neighbors as a kid. My first paying job was a newspaper route. My first job in the restaurant industry was in May 1985 at a local pizza place. They didn't have positions, so I did everything: made the dough, the sauce, answered phones, everything. I started there before they opened for business, and I have been in the pizza business ever since. Eventually, Snappy Tomato Pizza ended up buying the company and I continued with them.

Formative influences/events: I think a lot of people who are self-driven come from a place of not having a lot. I had to be the one who helped my parents out. From an early age, everybody was already turning to me to provide or solve issues that came up. I had to be the person who either provided—or didn't. The experience definitely catapulted me to where I am now. I was always depended on to be a provider, and the desire to provide has never left.

Key accomplishments: My greatest accomplishment has been the ability to recognize opportunities. I was able to purchase my first store because I recognized that an existing store was suffering. I took that opportunity to the board of directors and requested their assistance in purchasing the store if they let me reopen. From that point forward, it was just a matter of working hard.

Biggest current challenge: I'm working to purchase Snappy Tomato Pizza in its entirety and also to expand the number of

TIM GAYHART, 50

Owner, Operator, President

Company: Gold Star Chili, Snappy Tomato Pizza

Units: 1 Gold Star Chili, 7 Snappy Tomato Pizzas, area manager for Snappy Tomato with 13 locations

Family: Married since 1997, 21-year-old son, 17-year-old daughter

Years in franchising: Franchisee since 1991, area developer since 2001

Years in current position: 30

Gold Star Chili locations I own. Lots of moving pieces, especially during a politically turbulent time, and there's just a lot to keep track of.

Next big goal: I'm looking forward to purchasing several more Gold Star Chili locations. I've been operating my current Gold Star restaurant with great success and I'd like to start growing this out.

First turning point in your career: In 2001, when I was able to purchase the development territory with Snappy. I had been opening and turning over restaurants at the time, and a big goal was to start getting some stream of income on the backside for all the effort I was making. Receiving the development territory was incredible and offered me an opportunity to grow in a way I simply hadn't been able to previously.

Best business decision: Early on, I decided to take responsibility for all of the actions under my purview. It's a strong trait for entrepreneurs to have: the buck ends with you. It's on you to have the ability and the strength to move things forward. What's good about this is that it leads to having enough confidence in yourself and your abilities that you can be comfortable with other people's ideas and opinions and disagreements.

Hardest lesson learned: Accepting that sometimes a venture will fail. You may know you have a good brand and a good product, but there can be outside issues that cause the venture to end. It was a tough pill to swallow that not every location in the restaurant business is going to be a home run. It took me a couple of years in a couple of places to figure that out. You need to be able to know when it's right to move on and not let it drain you.

Work week: I don't have a work week. No day is any different whether it's Sunday or Monday. When you're the owner, you're the end-all-be-all. You need to be available when any of your employees call you, to deal with any issues as they come up and assess the situation. Whether I'm working in the restaurant or on my phone, I'm always working. But when you're doing something you love, a job's not a job, it's a part of your life, and that's how I handle all of this.

Exercise/workout: Usually, I work out about five times a week. I just built a gym on my land since Covid-19 started so I can be safer about it. I find it's important to keep my energy level up. You can't be sluggish as an owner. You're the cheerleader and hard worker at your job, and you have to take care of yourself to do this.

Best advice you ever got: Two things: Don't ever let $5,000 make you walk away from any deal. Early on, these dollar amounts were sticking points. Second, when there's an issue to address, make sure you're asking yourself the questions "What else could this mean?" and "What else is going on?" Sometimes the issue being discussed is not the deeper issue that needs to be addressed.

What's your passion in business? I enjoy continued growth. Adding positions and opportunities to the communities we go into is an incredible experience. The opportunity to treat people with respect and give them a path toward growth, to help in their development and give them self-worth… this investment in people is just so important.

How do you balance life and work? I've found that if you think about it too much or plan too much, for work or for pleasure, you'll talk yourself out of it. I always liked the sayings, "You never know how much you do until you do it," and "If you need something done give it to a busy person." I try to take advantage of opportunities while they come up and make sure I'm addressing everything. That said, when my wife says we're going somewhere, it's usually out of my hands.

Guilty pleasure: Working out, maybe? Or vehicles? I enjoy the chase of finding the right one and then selling it and doing it all again.

Favorite book: *Good to Great* by Jim Collins.

Favorite movie: I'm a slapstick comedy fan. "The Naked Gun" franchise ranks high.

What do most people not know about you? I don't know. I try to be very open and answer people honestly when they ask me about myself.

Pet peeve: I really don't like when it takes people a very long time to respond. I appreciate timeliness in responses. I hold myself to that and hope others treat me in kind.

What did you want to be when you grew up? I wanted to be in the restaurant business. I started early on. The guy I worked for was someone I looked up to at the time. He had high energy, exercised, and was a great salesman. So from the age of 14, I decided I wanted to be a restaurant owner. My parents always asked me, "When are you going to get a 'real' job?" but for me, this was always the goal, and I'm excited to be doing it.

Last vacation: Maybe 3 or 4 years ago, we went down to Savannah, Georgia. I love the community and atmosphere there.

Person I'd most like to have lunch with: Tony Robbins. I've learned a lot from him that I've been able to implement.

MANAGEMENT

Business philosophy: Take care of the people who take care of you, and let them know that you appreciate them. It seems like a lot of people are afraid to praise and promote people who are succeeding around them. But this is a big deal to appreciate those who are working hard for you and let them know how much you appreciate their contributions.

Management method or style: To teach from within. Hands-on training. I want to always be lending a hand where it's needed and training my staff to do the same. Whether it's answering a phone, talking about strategy, or making food, there's always something to do.

Greatest challenge: For me personally, it's marketing. There are all kinds of experts out there, which is great because when you're in the business, surrounded by those four walls, there can easily be a disconnect between running your business and promoting it.

How do others describe you? I don't really have an answer for this. I've usually been the leader, the one doing the incentives and praising. I don't usually get told by others how I'm doing. But I try to be fair, and I try to be honest and open about anything I'm doing.

One thing I'm looking to do better: There's always room for improvement when it comes to implementing strategies. Making sure I'm finding the right people to take over specific responsibilities from me who understand what needs to be done, and then learning for myself how to rely on them better.

How I give my team room to innovate and experiment: It's not a defined process. I allow my employees to implement at a store level any ideas they may have to help promote the store and/or our services.

How close are you to operations? I'm hands-on every day. The last thing I want is for someone at one of my restaurants to think they don't have someone to rely on or go to for help. Whether they're overly busy, dealing with something broken, or anything else, I want to be present and available to them. They have to believe in you, trust you, and have respect for you. And if you're not hands-on, the attitude just won't be there.

What are the two most important things you rely on from your franchisor? Having the right information when we need it. Covid-19 was obviously a big deal. And having the tools involved and the resources and infrastructure of support for issues that may come up (or did come up) was paramount. It's good when the franchisor is coming from a place of knowledge and respect.

What I need from vendors: Quality. Period. It can be a gamble sometimes when it comes to vendor quality. I want to be sure that the product is handled properly, that it's handled with care from its packaging to its transport to its arrival at my restaurants.

Have you changed your marketing strategy in response to the economy? How? At the beginning of the pandemic, we immediately pulled back because we didn't know what was going to happen. From that, we started to focus our marketing on our preparedness—sanitization protocol, providing safety for our customers and our employees, and that we are a safe place for people to come.

How is social media affecting your business? I'm no expert on social media, but where you show up on people's searches is very important. Responding to customers politely, correctly, and quickly has been key. The ability to track the specificity of information has also been incredible.

How do you hire and fire? We're always hiring because we're always continuing to grow and improve. We don't have to do a lot of firing. Usually, our employees are transparent about if they want to leave. Of course, I always want to protect our brand and make sure the customer is receiving the best attention they can, but we rarely run into rowdy or disrespectful employees.

How do you train and retain? The training process has moved into the digital world. We have the PlayerLync training platform with Gold Star, which has videos and tests, then certification, then hands-on training. The younger generation seem to resonate with this digital training. It helps engage them in their job. For retaining, I try to continue training and cross-training them toward growth and promotion. I want employees to know they can move up if they want. Between the praise and cheerleading and the opportunities available to them, people seem to stay longer.

How do you deal with problem employees? First, I always want to have a third party to the issue present. I work to be straightforward and direct about any issues, share ideas of how to grow and get past them, and make sure that everyone understands what the issue was and how to move forward.

Fastest way into my doghouse: Punctuality. Not being on time, or not being available for the shifts agreed to work.

COVID-19

What are the biggest impacts of Covid-19 on your business? The biggest impact was definitely on the buffet business. The second impact was the third-party delivery. Every restaurant learned how to deliver, and now the competition was more than restaurants in the immediate vicinity—it's every restaurant in the delivery range.

How have you responded? We obviously deliver, and with Gold Star we were fortunate to have the drive-thru windows. We pushed our marketing around how we were a safe place to eat and worked to let the employees know that they were in a safe place.

BOTTOM LINE

Annual revenue: $10 million range.

2021 goals: Two main goals for this year: the purchase of Snappy Tomato Pizza Company, and to add another few Gold Star Chili locations.

Growth meter: How do you measure your growth? Growth to me is defined by each location individually. I treat each entity as its own profit-and-loss center. For each location, I'm looking at my staff, if they're willing and able and capable, and I'm making sure the restaurants are operating in a profitable manner. Then I'm looking to see if it's possible to add another profitable venture.

Vision meter: Where do you want to be in 5 years? 10 years? I'd like to be sitting at the head of Snappy Tomato Pizza and have 100 restaurants open and moving toward 200, and a successful cluster of five to seven Gold Star Chili restaurants.

Do you have brands in different segments? Why/why not? I've previously owned a real estate company and did real estate on my own, too. I'd be interested in moving into new verticals again in the future, but when you know something and believe in it, it's not work, and that's where I feel with restaurants currently.

How is the economy in your region affecting you, your employees, your customers? Both employees and customers have been affected. Customers have received the stimulus money, which is good because they then went and spent it. On the other side, it's hurt on the employment factor. It got very easy for people to not work and receive those funds. Definitely, there's still an employment issue.

Are you experiencing economic growth in your market? There are several smaller markets that have seen a tremendous amount of growth this past year. All of our restaurants have increased, or at least stayed the same, but several have increased dramatically. These locations have typically been ones that have existed in their community for some time. They have the trust of the customer already, and that was

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*Brand Keys 2020.

incredibly helpful during the pandemic.

How do changes in the economy affect the way you do business? When I hear "change in the economy," I think pay scale and what's going to happen to people in the local community. I work to ensure that all of my employees and staff understand how important it is to treat all customers with extra respect, that these are people who are choosing to spend their dollars with us. Customer satisfaction has to be high. I want to reinforce to my staff, and through them to the customer, that they're providing high value and high quality to everyone who walks through the door.

How do you forecast for your business? I believe that we're going to stay at the higher volumes that we've seen during the pandemic. I think we've earned the customer's trust and respect, and I think we'll be able to increase from here as the economy rebounds. I think our future marketing will be received better too, because the community will have a greater awareness about what we've been able to do. People seem to be more aware of what you're doing for them now than what you've done in the past.

What are the best sources for capital expansion? I'm not the best to answer this. I've always been reinvesting in myself and have been lucky enough to be able to use my profits to get loans for the next project.

What are you doing to take care of your employees? In today's market, "taking care of people" means being flexible. Employees want to work when they want and have the time off that they want. Being flexible is key for this, being respectful to them and their needs. Through Covid-19, I wanted to give my employees the tools they needed to be safe in the restaurant and to enforce these rules so that every employee was, in a sense, taking care of their co-workers. During the first shutdown, we guaranteed everyone that they would have a job and a paycheck when things reopened. We also increased pay during the pandemic. I didn't want to alter any of my employees' lives unless I was personally feeling the effects already.

What laws and regulations are affecting your business, and how are you dealing with it? In the restaurant business, there are lots of laws and organizations to answer to: health department, labor department, etc. Covid-19 is the most obvious. New guidelines are driving our costs up: thermometers, sanitizer, etc. It's another layer of protection for everyone, but also another layer of responsibility for employees. New labor laws, new minimum wages, all of this increases cost. It's a lot of balancing and finagling making sure that we're covering ourselves on every aspect. The tricky thing is that these laws get enacted, but as an employer you're not always notified. So I'm constantly trying to go out and look for updates for these laws. As business owners, it's our job to know these things.

I work to ensure that all of my employees and staff understand how important it is to treat all customers with extra respect, that these are people who are choosing to spend their dollars with us. Customer satisfaction has to be high.

How do you reward/recognize top-performing employees? We bonus out quite a bit. We also create rewards like gift cards. We reward employees who rank highly on customer service, who stay after their shift when it's busy, and who come in when someone calls off. I want to reward people for being excited about their work, and I want to make sure I recognize and praise my employees who stand up for this.

What kind of exit strategy do you have in place? I don't currently have one. I don't think I'll ever not be doing something. I'm looking to continue as long as I can. I think I'll always be an entrepreneur for as long as I live. ■

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SURVIVOR!

Spencer Smith is back on the growth track

Written by **KERRY PIPES**

SPENCER SMITH, 47

CEO

Company: Smith Group

Units: 7 Aaron's, 3 American Family Care, 2 Big O Tires

Family: Married to Nichole, my college sweetheart, 6 children (4 adopted, 2 biological)

Years in franchising: 21

Years in current position: 21

Spencer Smith understands that success comes from having a strong work ethic and remaining dedicated to the business. That's what he learned growing up on the family farm and working in his father's tire store in southwestern Colorado.

"Dad passed away last year," says Smith, "and his influence has become even more apparent. I can trace most of my business acumen back to him."

Smith founded his own company, Smith Group, in May 2000 by opening his first Big O Tires location in Cortez, Colorado. He says it didn't take long to realize that he wanted to grow the business and opened his second location 2 years later. "I knew multi-unit operations was in my blood."

His next move was to begin franchising with Aaron's by acquiring six units in 2002. Within 10 years he grew his Aaron's portfolio to 46 locations. In 2015 crisis struck.

"We faced disruption to our model from new virtual competitors, cash drain from over-expansion, and at the same time the bottom fell out of the oil and gas industry—our customer base," he says. The result was a negative cash flow within months and the need to sell 38 of his Aaron's locations by the end of the year. But the trouble wasn't over yet because he then faced a $5 million tax bill. "It took a few years to right the ship and pay off those taxes," he remembers.

With his business cut back to a lean but successful operating machine, in 2019 he signed on with American Family Care and opened his first location in Garden City, Idaho, a suburb of Boise.

Today Smith's company operates 7 Aaron's, 3 American Family Care, and 2 Big O Tires locations and is doing $28 million in annual revenue across 5 western states. He says he'd like to open 3 more American Family Care centers this year.

"I love to grow things," he says, "whether it's the crops on our farm, opening new locations, or helping associates grow their professional abilities so they can succeed in every part of their lives."

PERSONAL

First job: Working at my parents' tire store in the afternoons after kindergarten, then a few years later at their farm. My first job not working for my parents was when I went to college. I worked at a McDonald's from midnight to 6 a.m. as part of the cleaning crew. I lasted only a week once I realized I really did have to sleep and that doing so in class wasn't working well.

Formative influences/events: Working with my father. He passed away last year and his influence has become even more apparent. He expected the best out of everyone, but he'd go to the ends of the earth to help you in return. I can trace most of my business acumen back to him. We had multi-hour business discussions on his business trips. He talked with me like I was his peer even though I was only a teenager.

Key accomplishments: My family and the people I work with. When I see and hear from our associates how their recent promotion allowed them to buy their first home I feel I've succeeded in some small way. I love to grow things, whether it's the crops on our farm, opening new locations, or helping associates grow their professional abilities so they can succeed in every part of their lives.

Biggest current challenge: Anticipating future disruptions and planning to outmaneuver them.

Next big goal: Grow to more than 30 urgent care locations.

First turning point in your career: My parents' divorce necessitated my resignation as general manager of their tire store and wholesale operation. Two weeks later I purchased a competing tire store. Long story short, it all worked out and there was greater harmony within a few years. I quickly realized I wanted to grow and opened my second location 2 years later. I knew multi-unit operations was in my blood.

Best business decision: Deciding early on that I didn't have to stay in just one brand or industry. After opening my second Big O Tires franchise, I started opening Aaron's furniture stores and we grew to 46 locations.

Hardest lesson learned: In 2015 I woke up one day to a trifecta of business model disruption: over-expansion, cash drain, and the collapse of the oil and gas industry that was a large segment of our customer base. In April 2015, we went from hundreds of thousands of dollars of positive monthly cash flow to hundreds of thousands of dollars of negative monthly cash flow. By the end of 2015 I had sold 38 locations. While that solved most of the immediate issues, it wasn't long before a $5 million-plus tax bill was due. It took a few years to right the ship, pay Uncle Sam, and then decide to switch industries again, finding my way into the urgent care world.

Work week: I work 5 days a week, 40 to 60 hours a week.

Exercise/workout: I do great for months at a time during the winter, but tend to stop come summer, and then start all over again. It works for me.

Best advice you ever got: Work so you can sleep when the wind blows.

What's your passion in business? Growth.

How do you balance life and work? I strive to play with my family as hard as I work.

Guilty pleasure: Ice cream.

Favorite book: *7 Habits of Highly Effective People.*

Favorite movie: "Remember the Titans."

What do most people not know about you? I'm a farmer at heart. I just haven't learned how to feed my family doing so.

Pet peeve: Indifference.

What did you want to be when you grew up? Truck driver.

Last vacation: Maui with all our kids and their spouses.

Person I'd most like to have lunch with: Elon Musk. I like his out-of-the-box thinking.

MANAGEMENT

Business philosophy: Do the right thing, even when it costs, because it always pays off long term.

Management method or style: Hire the right people and get out of the way.

Greatest challenge: Retaining talent and weeding out those who are "okay" with underperforming.

How do others describe you? Strong work ethic and religious conviction.

One thing I'm looking to do better: Long-term planning.

How I give my team room to innovate and experiment: Fail fast.

How close are you to operations? From a distance. I'm blessed with a great partner and operator, Mike Weir.

What are the two most important things you rely on from your franchisor? Supply of what our customers want at a better-than-market price; and strong processes and operational flow that contribute to our culture.

What I need from vendors: Partners for mutual success.

Have you changed your marketing strategy in response to the economy? How? Pulled back for 60 days and then continued much the same thereafter.

How is social media affecting your business? It's becoming a large contributor for good or bad every day.

How do you hire and fire? Hire slow, fire fast is our goal. Still room to improve.

How do you train and retain? Process-driven, general manager involvement. Still room to improve.

How do you deal with problem employees? Have candid conversations about how they can succeed, then ask if they want to do that or if it's time to go our separate ways.

Fastest way into my doghouse: Lack of integrity.

COVID-19

What are the biggest impacts of Covid-19 on your business? Customer and associate morale.

How have you responded? Kept associates' full-time hours and found many projects to keep them productive during that lull. Paid hazard pay bonuses to our urgent care team members to show them we appreciate them putting their own well-being on the line to serve our patients.

What changes do you think will be permanent? Heightened awareness when the next pandemic comes along and a willingness to make some changes more quickly for the benefit of all.

BOTTOM LINE

Annual revenue: $28 million.

2021 goals: Open three more American Family Care centers. Grow the number of customers and patients we serve while making a modest profit increase so we can continue to do this for decades to come.

Growth meter: How do you measure your growth? Locations, number of associates, revenue, and profitability. Profit isn't a four-letter word, it's a measure of our customers' confidence in us.

Vision meter: Where do you want to be in 5 years? 10 years? Continued location and revenue growth within all the franchise brands we are a part of.

Do you have brands in different segments? Why/why not? Yes, for the many reasons cited above.

How is the economy in your regions affecting you, your employees, your customers? With the number of rural locations and conservative communities we operate in, we've been insulated from the mass effects in many metro areas.

Are you experiencing economic growth in your market? Most of our markets are slow but steady growth.

How do changes in the economy affect the way you do business? We are striving to drive business in our doors every day through our marketing and word-of-mouth promoters.

What are the best sources for capital expansion? I'm constantly looking for new sources to provide capital. It surprises me how it takes constant effort to find new sources all the time. Just because someone was the best option 6 months ago is no guarantee they are the best today. Seldom are they.

Experience with private equity, local banks, national banks, other institutions? Why/why not? I've worked with all but private equity. It seems like the lending world continues to change at an ever-faster pace each year. Loan brokers have helped find some of our most creative solutions at competitive terms.

What are you doing to take care of your employees? Hazard pay, improving benefits plans, and incentivizing best behavior through bonus plans.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? We continue to look for ways to save with existing and new vendors and make up the difference in price increases to the consumer.

What laws and regulations are affecting your business and how are you dealing with it? I belong to strong industry associations and actively participate by attending legislative conferences.

How do you reward/recognize top-performing employees? Company recognition at meetings, newsletters, and bonus programs to say thank-you.

What kind of exit strategy do you have in place? I'm in the beginning stages of recruiting for replacing myself and my partners so our organization can continue for decades to come, rather than looking for a way to cash out. ■

TEAM EFFORT

10-unit Sola Salon owner weathers the storm

Written by **KERRY PIPES**

Covid-19 hit Heather Safrit with a one-two punch last spring. All 10 of her Sola Salon Studios in Florida and Georgia were required to close for up to 7 weeks. What's more, salon studios and suites were not eligible for PPP or EIDL funds in the initial rounds. Nevertheless, she and business partner Dave Donahower weathered the storm and are conducting business again and preparing to grow in the coming post-Covid environment.

"Now that I have been able to reopen all of my units, I'm faced with addressing the issues affecting my independent salon owners and their businesses," says Safrit. "Childcare and reduced client visits because of Covid-19 are critical concerns for our salon professionals, who are predominantly women and the primary providers for their families." For her part, Safrit notes that the SBA never did relent on PPP funding for salon studios, but Sola franchisees were eventually given the green light to apply for EIDL funds.

Sola Salon Studios is a business model in which the "customers" are independent beauty professionals renting studio space in Safrit's locations, which are located in Palm Beach County, Florida, and Savannah, Georgia. "Independent salon owners choose to operate at Sola for the same reason aspiring entrepreneurs turn to franchising—the support," she says. Sola offers beauty professionals just that by way of private studio space, marketing resources, technology, community, and more.

"If you share a common vision and people feel like they are part of something bigger than themselves, they tend to be happier and perform better," she says.

After 8 years in franchising, Safrit is optimistically looking ahead. She says she'd like to add two more Sola Salon locations this year, one in each of her markets.

PERSONAL

First job: I had summer jobs in retail during college, but my first full-time job after graduating was as the executive director of Junior Achievement in Savannah, Georgia.

Formative influences/events: I grew up in an entrepreneurial family. My father came from a small town in North Carolina and started delivering newspapers when he was 10. He has worked every day since then, first as an employee, then after college in his own real estate sales and development businesses. His entrepreneurial spirit, creative vision, and work ethic are qualities I have always admired in him and have tried to emulate. Without the support and encouragement of my parents, Brooks and Woodie, I would not be where I am today. I am extremely grateful to them both.

Key accomplishments: Opening 10 Sola Salon Studios locations in 7 years! Also receiving the Sola Newcomer Award, Growth Award, and MVP Award at our annual conference in 2014, 2015, and 2017, respectively.

Biggest current challenge: Work/life balance always seems to be somewhat of a struggle for me.

Next big goal: My business partner and I just signed on for another three Sola salons, so I will be focused on site selection and development of those locations in the near future.

First turning point in your career: Getting hired to work on the 2004 G8 Summit in Sea Island, Georgia, which led to my previous career in special event logistics. Working for both the U.S. government and private and public companies, I got to meet amazing people and travel to fantastic places. In fact, one of the people I met while working on a corporate event was the person who introduced me to Sola Salon Studios, as well as to my business partner.

HEATHER SAFRIT, 49

COO/Operating Partner

Company: Sola Salon Studios

Units: 10 open, committed to 5 more

Family: Kate, Frances Olivia, and Annie, my three Cavalier King Charles Spaniels

Years in franchising: 8

Years in current position: 8

Best business decision: Joining forces with my business partner Dave Donahower to become Sola Salon Studios franchisees.

Hardest lesson learned: Failure is just opportunity in disguise.

Work week: In the early years of running my Sola salons, I worked seven days a week. But as we have grown and I have developed a team, I try to limit my work week to Monday through Friday. However, since our independent salon owners have 24/7 access to their Sola salon, I am always on call for my team in case there are any emergencies in the salons over weekends.

Exercise/workout: Walking with my three four-legged children and Pilates twice a week.

Best advice you ever got: Match effort with effort. You cannot want something for someone more than they want it for themselves. My grandmother Flora also used to say, "Don't take any wooden nickels," which has proven to be good counsel.

What's your passion in business? I love building things—concepts, companies, and new Sola salons!

How do you balance life and work? I am still working on that aspect of my life. In making decisions, I like to use Suzy Welch's 10-10-10 rule. I try to consider how will I feel in 10 minutes, 10 months, and 10 years about the choice in front of me.

Guilty pleasure: Spending the day on the beach under an umbrella reading a good book.

Favorite book: *Excellence Wins* by Horst Schulze.

Favorite movie: I loved "We Are Marshall." It is a great story about the triumph of the human spirit in the face of tragedy. It also offers a great leadership lesson. If the environment has changed and one is to succeed, sometimes you must change old behaviors.

What do most people not know about you? I love to garden. I find it very relaxing to be outside in nature, and it is rewarding to see the finished product in bloom.

Pet peeve: Selfishness.

What did you want to be when you grew up? I wanted to be in the fashion business, which I eventually did. I opened a women's clothing boutique in Atlanta in the late 1990s. It was a great learning experience, but after 5 years in the industry, I was ready to move on. Since then, I have avoided industries with high inventory costs.

Last vacation: Palmetto Bluff in Bluffton, South Carolina.

Person I'd most like to have lunch with: Supreme Court Justice Amy Coney Barrett. I would love to hear about her journey and how she has created balance in her extremely full life.

MANAGEMENT

Business philosophy: Work hard and you will succeed.

Management method or style: Collaborative. I believe the most successful companies are those in which their team members take ownership of their responsibilities. If you share a common vision and people feel like they are part of something bigger than themselves, they tend to be happier and perform better. It is important to me that my team knows I value their opinions, trust them, and feel their contributions are important to the overall success of the company.

Greatest challenge: Although it sounds clichéd, one of my biggest faults is that I am a perfectionist. As such, delegating has always been a challenge for me. There are times in my career I have been pushed to my limits, and in those moments I have been forced to delegate or cease to grow. It is hard for me, but as I get older and continue to gain life and business experience, I am getting better at it.

How do others describe you? Focused. Dedicated. Loyal.

One thing I'm looking to do better: I am always looking at how we can improve the customer service aspect of our business. In Sola's business model, our customers are independent beauty professionals renting studio space in our locations. Independent salon owners choose to operate at Sola for the same reason aspiring entrepreneurs turn to franchising: the support. At Sola we provide high-level support that includes not only offering luxury, private, turnkey studio space, but also marketing resources, technology, business tools, community, and much more. It is important to me that the independent salon owners in my locations feel like I have their back.

How I give my team room to innovate and experiment: With independent beauty professionals as my customers, my team includes property managers, maintenance workers, and others who keep the day-to-day operations of my locations running smoothly. I make sure they know what I expect of them personally and as a team. I also provide them with thorough training and the opportunity to always ask questions. Then I give them room to handle situations as they see fit. Sometimes we have great success and other times not. But the key is we learn something to make us better going forward.

How close are you to operations? I work in the business daily. Currently, my primary focus is on development and leasing studio space to independent beauty professionals. But I speak with my operations team every day to monitor conditions in the salons and our plans for handling major maintenance issues that arise, as well as studio move-in/move-outs.

What are the two most important things you rely on from your franchisor? Marketing and technology, and Sola prioritizes both. We have access to ready-to-launch, nationally branded marketing campaigns to help us drive leads in our markets, and we also receive step-by-step training on how to most effectively execute those marketing campaigns on a local level. Sola is attractive to beauty professionals as well, because of the exceptional technology-driven tools the brand offers them. Tools like SolaPro and SolaGenius allow them to run their businesses more smoothly, which makes our lives as franchisees easier because we're able to dedicate our focus to business development and operations.

What I need from vendors: Honesty and the ability to deliver on time.

Have you changed your marketing strategy in response to the economy? How? The economy was doing great before Covid-19, and I think it will come back even stronger as government restrictions continue to be lifted. Although indicators might reflect a recession, the problems with the economy are not related to economic principles, but rather the impact of an unprecedented pandemic and forced business closures. I am continuing to spend the same amount of money on marketing. However, our marketing messages have changed from promoting entrepreneurship to more safety-related issues, as well as support for beauty professionals who may have been displaced by permanent salon closures, or salon owners who need to downsize and are looking for a seamless transition.

How is social media affecting your business? Social media is an amazing marketing tool for our business. Most of our leads come through social media, rather than traditional print paid advertising. Our existing customer base produces a lot of organic content to promote their small businesses, and they have a huge extended reach in their networks. This content produces a lot of customer engagement and we can even repurpose their content for our own content. Most would classify this as influencer marketing, but ours is more authentic: happy customers tell their friends. We get a lot of word-of-mouth referrals.

How do you hire and fire? Hire slowly, fire quickly.

How do you train and retain? As a franchisor, Sola provides great training resources, including in-person and ongoing training as well as video resources. I also do shadowing with my team. For a number of years early on I was a one-woman show and have performed every task required by my managers. I generally like to spend some personal time in the field with a new team member and encourage the team to spend time shadowing and talking with each other and other Sola managers within the system. We have an extremely supportive franchisee community and we all work together to help each other with training and problem-solving when necessary.

How do you deal with problem employees? A typical multi-unit Sola franchise owner does not have more than five employees, so a bad apple can cause significant problems. Generally, if I see an employee is not working out I let them go quickly.

Fastest way into my doghouse: Lack of communication, particularly not asking questions when you are not sure how to handle a situation.

COVID-19

What are the biggest impacts of Covid-19 on your business? The mandated closures of all 10 of my Sola locations for between 5 and 7 weeks, which obviously greatly affected our bottom line. Salon studios/suites as a business model were not eligible for PPP or EIDL funding in the initial rounds, which made it hard to manage cash flow. Additionally, Sola franchisees made the collective decision to stop collecting rent from our independent beauty professionals since they were forced out of work. Now that I have been able to reopen all of my units, I'm faced with addressing the issues affecting my independent salon owners and their businesses. Childcare and reduced client visits because of Covid-19 are critical concerns for our salon professionals who are predominantly women and the primary providers for their families.

How have you responded? We are helping our independent salon owners navigate through the government rules and regulations for the reopening of cosmetology salons, which can be confusing at times. We are also trying to support them in handling the financial and emotional pressures of operating a business and balancing family obligations such as home schooling during Covid-19. Working with top educators in the beauty industry and mental health practitioners, Sola's home office has provided us an array of resources including blog posts, webinars, and podcasts with valuable information to assist us in this effort.

What changes do you think will be permanent? I think increased cleaning and sanitation practices in the salons will be permanent and will result in increased janitorial costs.

BOTTOM LINE

Annual revenue: $4 million.

2021 goals: Develop at least two new Sola locations. My business partner and I have two markets, one in South Florida in and around Palm Beach County, and the other in Savannah, Georgia. We will add at least one new salon location in each market by early to mid-2021.

Growth meter: How do you measure your growth? Number of units and both physical and economic occupancy rates.

Vision meter: Where do you want to be in 5 years? 10 years? 15-plus salons running at full occupancy would be my hope.

Do you have brands in different segments? Why/why not? No, my business partner and I want to stay focused on Sola, which is our core business.

How is the economy in your regions affecting you, your employees, your customers? The Covid-19 restrictions in our area are affecting business more than the economy itself. Although there is a concerning unemployment rate at this time, it is primarily because of occupancy restrictions placed on restaurants, salons, and other public establishments. Once the restrictions on salons are lifted and business can go back to full occupancy, I think we will see more customers seeking beauty services. The demand is there, but the occupancy restrictions and ongoing uncertainty around the virus are reducing client visits.

Are you experiencing economic growth in your market? Yes, particularly in South Florida. We are seeing a tremendous number of people move to the region from the Northeast because of Covid-19, so there is

an increase in the number of clients needing beauty services. Salon professionals, who are in fact Sola's customers, are also deciding to move into private studios at an increased rate as they look to move out of crowded salon environments or traditional salons that have had to permanently close as a result of the pandemic.

How do changes in the economy affect the way you do business? As a salon studio business model, Sola is relatively recession-proof. No matter what the economic conditions, hair continues to grow and gray, as do nails, among other personal services. Although our customers' clients might not come in quite as often, they will still get these vital personal grooming and "feel good" services done. Also, you cannot outsource personal grooming services overseas, so we feel good about the longevity of the business.

How do you forecast for your business? With more than 545 units nationwide, our franchisor is able to provide us with data on expected occupancy ramp-ups. We use those metrics to help us forecast our salon occupancy and related cash flow.

What are the best sources for capital expansion? Banks have great rates right now.

Experience with private equity, local banks, national banks, other institutions? Why/why not? My business partner and I do not have any experience with outside funding sources to date. However, given the money we lost during the mandated closures of our salon locations and the rising cost of building, we are considering looking at some level of outside funding going forward. If we go that route, we will probably look at banks that have previous experience in funding Solas.

What are you doing to take care of your employees? We do annual reviews and give raises and bonuses accordingly. We are also providing them with all of the resources they need to interact with the public safely during Covid-19, including masks, hand sanitizer, and other sanitation products.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? Because of our business model where independent beauty professionals are the customers and most franchise owners typically employ only five people, these common issues don't affect our employees in the same way.

What laws and regulations are affecting your business and how are you dealing with it? Right now, the main things are that we remain ineligible for federal relief through PPP and the ongoing occupancy restrictions. In regard to PPP, our CEO Christina Russell spoke with more than 30 legislators to underscore the SBA technicality that excluded salon studios/suites from the program, as well as share the impact it was having on Sola's independent beauty professionals. Unfortunately, the SBA was intractable on PPP, but Sola franchisees were eventually given the green light to apply for EIDL despite previous loan denials. We remain positive, and Sola has continued working with the IFA to help educate legislators about franchising generally and about the specific challenges to small-business owners like myself and the independent salon owners operating within my four walls. The hope is that forthcoming relief opens up forgiveness beyond PPP, whether it is in the form of tax credits, grants, or other federal relief programs.

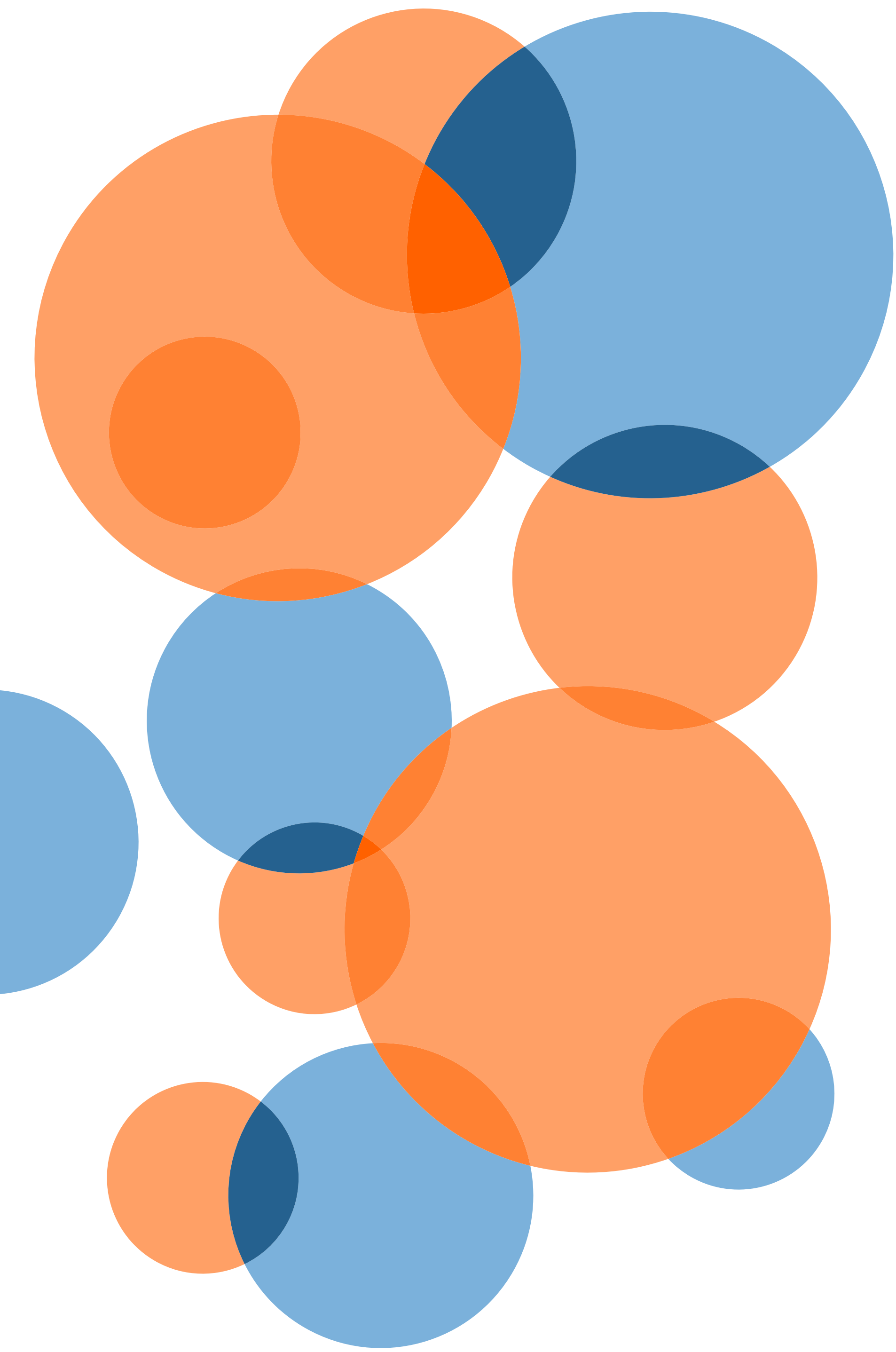
How do you reward/recognize top-performing employees? We give verbal recognition and have a bonus structure in place.

What kind of exit strategy do you have in place? My business partner and I have not thought about it a lot as we are still building. Until if or when the right offer comes around, we plan to hold and harvest. ■

CHANGE AGENT

Eric Werner continues to evolve with new brands

Written by **KERRY PIPES**



Eric Werner has had a long and successful career in franchising. We've been tracking the Texas-based multi-brand operator for years now, and every time we catch up with him he seems to have new brands and new business strategies. This time was no different.

"I've changed my business dramatically," says the 57-year-old. Of course he has. And in more ways than one.

When we last profiled him in 2012 (MUF, Q2) he was still rocking and rolling with dozens of Subways, a brand that has been his bread and butter since 1991. He had also recently opened locations with LA Sunset Tan and Mooyah Burger. Today, he's divested those two brands and sold 16 Subways in a deal he says he "just couldn't turn down." He's also signed on with Little Caesars, The Catch (a seafood brand where he's part of the franchisor group), Rhino Removal, and Beverly Hills Rejuvenation—which has been a significant move for him.

"Beverly Hills Rejuvenation just gives me a great feeling to be a part of that brand," he says. "We change peoples' lives and help them feel better about their health." Though he did have to shut the med spas down for 6 weeks last spring because of Covid, he kept his employees on the payroll.

Beyond his business acquisitions and divestitures, Werner has made a significant change to his operating style. He's begun selling a percentage of ownership in his business ventures, typically around 20 percent, to his key long-term employees.

"They have become my operating partners, they have skin in the game, and honestly I don't have to worry as much about the day-to-day of my business. I found that giving up 20 percent ownership and having 80 percent ownership actually profits more than having 100 percent ownership. By having a key operating partner specifically working in my business, they are able to manage it better than me overseeing *all* the business. I now can work on my business, not in my business," he says.

ERIC WERNER, 57

CEO/President

Company: Texas Subs (Subway), Beverly Hills Rejuvenation Center, Little Caesars Pizza, The Catch Seafood, Rhino Removal Waste Disposal

Units: 40 Subway, 8 Beverly Hills Rejuvenation Center, 3 The Catch, 1 Little Caesars, Rhino Removal Waste Disposal

Family: Wife Shaelyn, 9 children: Hillary, Preston, Taylor, Tyler, RyLeigh, Blake, Skylor, Bryce, and Shaylee

Years in franchising: 34

Years in current position: 34

Werner has also been investing in more real estate where it makes sense for his units, and which provides an additional income stream when he leases to other businesses. "I realized that I had paid rent on some of my locations for 30 years. I could have purchased that property by now instead."

The father of nine recently bought a farm north of Fort Worth and spends his time between the farm, where his office is, and his home. "I'm enjoying spending more time with my family and feeling less stressed now that I have operating partners minding the business."

He's not out of the franchise business, he's just working on new ways of doing it better.

PERSONAL

First job: I worked as a waiter at Vista Hills Country Club, then at the golf course there. It was back in 1980 in El Paso.

Formative influences: When I graduated from Texas Tech University I started working as a manager at Walmart. During this time, I completed their entire training program, which helped shape my style and approach to business. My two years of working for Walmart was like getting another business degree as it helped my success with franchising. I thought that I should work for a very successful company to see what makes them successful and really admired Sam Walton at that time.

Key accomplishments: Franchisee of the Year with Precision Tune Auto Care. Our company has made the "Inc. 5000" list of the Fastest-Growing Private Companies in America for 6 years now; and we were recognized by *Inc.* magazine for the Hire Power Award for creating jobs. We have won the Subway worldwide contest for the fastest sandwich maker in the world several times. We were awarded the President's Cup in Subway. We have been awarded Subway Franchisee of the Year five times and the Mega MUO Franchisee of the Year one time in 2015. And we've been recognized as one of the largest QSRs in the country by Restaurant Finance Monitor several times.

Biggest current challenge: Every day there is something, but the biggest challenge is adapting to the ever-changing world with the pandemic.

Next big goal: Grow Rhino Removal to be attractive enough for a partnership with private equity, then go public on the stock market.

First turning point in your career: Purchasing the Waco Subway market in 2001 with capital partners since I was not big enough at the time to do it myself.

Best business decision: Selling 20 percent ownership in my businesses to a loyal high-end operating partner. This concept was a game changer for me in business and in my personal life.

Hardest lesson learned: I tried to develop Wingstop stores in the Kansas City market and it was a hard lesson. I learned how challenging it can be to run brands in other states when they are not nationally recognized (at that time). Not everything you do is successful and you can learn from your mistakes. It's how you respond to the mistakes that makes a difference. Not trying is the biggest mistake because you never know what can happen.

Work week: This has changed a lot for me since I've brought in operating partners. I'd say I'm probably working around 20 hours a week these days. Currently, I work at our new farm. That has allowed me to spend more time with my family. My wife is a rancher/farmer so it works out for us seeing each other all the time. But I still meet with my partners, strategize, and review opportunities in monthly meetings at my corporate office.

Exercise/workout: I work out with free weights three times each week for 45 minutes to an hour. I will do cardio two to three times a week with the HIIT method on the treadmill. It serves as a great stress reliever and makes me feel good to be taking care of myself. I have been working out for 20 years!

Best advice you ever got? "Try to understand what people are saying by doing more listening."

What's your passion in business? Developing people and growing the company. Seeing people who are a part of this organization succeed is rewarding. Growing the company, efficiently, is exciting because you never know what's next.

How do you balance life and work? It's a juggling act and comes down to prioritizing. Each day I go through what has to be done at work, then what is most important to me in my life that day. It might be more important for me to spend time with my wife than work that day if there are no emergent issues. At work, I am very efficient and always have a plan of action in mind once I am in the office. There are some instances in which I will take "homework" with me so I am not at the office all day. This is work that I can do at my house at my own discretion. My belief is that time and what you do with it becomes very important as you age. Your time is something you can't get back when it's gone.

Guilty pleasure: Pizza.

Favorite book: I like to read the Bible daily. I still love *Rich Dad Poor Dad,* and *The Shack* is still one of my favorite books.

Favorite movie: There are several, but I'll go with "The Game."

What do most people not know about you? That I have nine amazing and wonderful children.

Pet peeve: I shower 2 to 3 times a day—very OCD!

What did you want to be when you grew up? Paleontologist. I loved dinosaurs and fossils.

Last vacation: Disney World with my family 4 weeks ago! Disney can't afford to have an incident so you know it was safe with masks all the time and cleaning stations everywhere.

Person I'd most like to have lunch with: Jesus Christ or Arnold Schwarzenegger.

MANAGEMENT

Business philosophy: Some key terms here: empowerment, open and candid, honesty, fair, and follow-up. Empowerment is an atmosphere I try to create where employees can make their own decisions and excel. I want them to have an attitude as if they were the owner. The backbone of our management philosophy is centered around being honest, open, up front, and fair with everyone. You will receive more respect from your peers. Whatever decision you make for one employee you should be willing to make for another employee. Finally, follow up on everything you have delegated to make sure it gets done! This is the weakest link for most managers.

Management method or style: Coaching. I like to empower people to be in the game but I can help lead and direct them to carry out their tasks. My experience allows me to see the big picture while sometimes employees may only have a more narrow or myopic view of what's going on. I provide guidance and support.

Greatest challenge: Finding good people who want to make something of themselves. Also, time management.

How do others describe you? Generous, fair, like to have fun but have boundaries.

One thing I'm looking to do better: Be a better person for myself than I was yesterday.

How I give my team room to innovate and experiment: I like new ideas so I encourage my team in meetings with an agenda that promotes strategy and growth such as a yearly SWOT analysis. This builds the framework to your operations.

How close are you to operations? I try to be around so my people know that I am out there and do exist. However, it is virtually impossible to be in all my stores. My operating partners are my eyes out in the field and we connect daily by text, email, or in person. I also schedule monthly meetings with them to discuss the past month's performance, as well as other categories such as human resources, product, advertising, new development, etc.

What are the two most important things you rely on from your franchisor? Advertising with purchasing power and reducing costs.

What I need from vendors: Support with product or new ideas and training.

Have you changed your marketing strategy in response to the economy? How? During Covid, we advertised our curbside and delivery services at Subway. Sales increased.

How is social media affecting your business? HUGE! Facebook advertising is very effective as is the use of SEO companies to promote business.

How do you hire and fire? We have a window cling in all of our Subway stores that reads, "10 Reasons to Work for Texas Subs." So we look to our customer base as well as our company website. We also use Indeed for finding people. When letting someone go my people handle this, unless it's a key top position in my company.

How do you train and retain? We have an employee training workbook that we

created and each new hire sits in on a 1.5-hour new employee orientation to cover the basics and fundamentals of our company and Subway. We also emphasize Subway's online training and reward our people financially when they complete these courses. All of our brands offer excellent employee training. We offer health insurance, employee scholarships, and flexibility in their scheduling.

How do you deal with problem employees? First, we let them know there's a problem and provide an opportunity for them to correct the problem and a timeline to do it by. If the offense is repeated then the employee is generally suspended, and a third time would be grounds for termination. If an employee is let go we want them to know that we have no other choice after trying everything we could to help that employee be successful. Always document any incident or counseling as well.

Fastest way into my doghouse: Not getting something I ask of you done.

COVID-19

What are the biggest impacts of Covid-19 on your business? It actually increased sales at our Subways, maybe because of other restaurants closing. Delivery orders became a whole new business as delivery sales went through the roof. However, the Beverly Hills Rejuvenation Centers were forced to shut down and close for 6 weeks.

How have you responded? We reevaluated how customers perceive convenience, cleanliness, and social distancing. We are in the process of remodeling all our Subway stores to reflect a new crisp, clean look, some with new drive-up windows or automatic door openers so customers do not have to use their hands to open the door when entering. We also do the obvious, like adding hand sanitizers everywhere, signage, and taking temperatures at BHRC.

What changes do you think will be permanent? Delivery is here to stay, from restaurants to grocery stores and more. Customers are going to expect ongoing delivery, takeout service, and, of course, continued enhanced cleanliness. I believe the trend will continue toward convenience, so takeout windows or drive-thrus are a great addition to a restaurant. It may be several years before some customers get comfortable with dining in.

BOTTOM LINE

Annual revenue: $40 million-plus.

2021 goals: Remodeling all of our Subway locations; add 2 more Beverly Hills Rejuvenation Centers; add 2 more The Catch restaurants in 2 years; grow to 25,000 households for our Rhino business; and invest in more real estate and the stock market.

Growth meter: How do you measure your growth? Three ways: sales, customer traffic, and profitability. You have to factor in all of these. We analyze these numbers weekly instead of waiting for monthly P&Ls. We know exactly whether food or labor is trending in the wrong direction weekly.

Vision meter: Where do you want to be in 5 years? Continuing to grow my owner-operator/part-owner strategy with more of my units or new brands. There could be another brand to add. I'm always looking at opportunities. I'd like to really grow The Catch and Rhino Removal businesses.

Do you have brands in different segments? Why/why not? Yes, for diversification and to spread the risk.

How is the economy in your regions affecting you, your employees, your customers? Our takeout and delivery business at Subway has grown as people look for safe ways to eat. We have continued to support our employees and offer ownership opportunities, which I think encourages them to stay on. We are looking at possibly getting back to a 401(k).

Are you experiencing economic growth/recovery in your market? Texas has not been hit as hard as other parts of the country. We did see our turnover rate decrease because people were content to have a job, especially during the pandemic.

How do changes in the economy affect the way you do business? We slowed down our unit growth to level out the balance sheet.

How do you forecast for your business in this economy? It's difficult, but that's why we review our financials weekly and monthly. We try to make adjustments and keep doing what's working. Every year we do a SWOT analysis of our company to know where we stand in our business environment and create a new plan for each business for the year and the future.

What are the best sources for capital expansion? We've used five local banks to fund growth. Liquidity is extremely important to banks these days. I try to be very open and up front with the banks we use so that they feel very comfortable with our business. We will provide updated financials upon request quickly.

Experience with private equity, local banks, national banks, other institutions? Why/why not? We work exclusively with five area banks. It has just been the best solution for us. National banks and SBA loans just wouldn't work for us because we like to build a personal relationship with our lenders. With a local bank you can get approval instantly or receive a line of credit.

What are you doing to take care of your employees? I'm now offering my top employees a chance at partial ownership. We try to treat every employee with respect and trust and provide an environment where they can excel. Beyond that, we've been known to help employees who are short on cash with advances that they pay back.

How are you handling rising employee costs (payroll, healthcare, etc.)? Eventually, you have to raise prices to overcome the increasing costs of food and labor. I will focus on sales more than anything because as sales increase fixed costs usually decrease. We do source out or negotiate the best prices for other expenses like equipment, supplies, or even health insurance.

What laws and regulations are affecting your business and how are you dealing with it? The increase in minimum wage is inevitable. We are planning now by looking at what others are doing in states that are already at $15/hour.

How do you reward/recognize top-performing employees? I leave that up to my operating partners now. Each one operates with a different perspective, but I do know we still have Christmas parties and monthly performance bonuses.

What kind of exit strategy do you have in place? I have begun setting up business partners with part ownership of my locations. That way if something were to happen to me tomorrow, the business would continue on since I am not as active in the day-to-day operations. It builds loyalty and provides all kinds of continued opportunities for my employees/partners. My kids are getting older and it's possible some of them will want to be in the business or open up their own business. ■

A&W ALL THE WAY

It's a family thing

Written by **KERRY PIPES**

Michael Vinckier grew up in Yale, Michigan, a one-stoplight town with an A&W restaurant. Today he has fond memories of eating there when he was younger. "There were only a few restaurants in town and A&W was the best," he says, "especially when you could sit in that prized corner booth that everyone wanted."

Vinckier comes from a family of entrepreneurs who have been involved in everything from real estate and construction to grocery stores, hardware stores, and a gas station. Today the 27-year-old has added two A&W locations, with a third opening this year.

He opened his first in Almont, Michigan, on a parcel of land in front of the family's grocery store. "We wanted a complement to our grocery business," he says. He looked at other restaurant chains, but A&W got the nod—in part because of his nostalgia for the brand, but also because of its reputation as one of today's top brands with great food.

"The brand's support has been excellent, and it's easy to communicate at the top level," he says. "A&W's CEO has actually met us in the field on multiple visits to our restaurants."

Vinckier opened a second A&W in Marysville, Michigan, in a former Pizza Hut location. He says it took a lot of work to convert the building, but the location's performance has far exceeded his expectations.

He was all set to open his third A&W last year, this one in Kimball Township, Michigan, when Covid-19 struck. His business weathered the pandemic storm and he will see his third A&W open later this year.

Vinckier says he's doing $2 million in annual revenue and plans to continue growing with A&W by adding more locations. He also plans to continue his involvement in real estate and other business ventures. And at just 27, he's nowhere close to making any exit plans.

About that prized corner booth he fondly recalls? "Yes, we put a corner booth in our own A&W. It's always the first spot guests choose to sit in. I love that we can pass this special experience down to our guests."

PERSONAL

First job: Worked for Meelunie, a commercial ingredient supplier.

Formative influences/events: My parents bought a grocery store when I was growing up. Being involved so heavily in the food industry even as a young child affected me significantly. It gave me a passion to work in the food industry so that I could use that to put food on my own table.

Key accomplishments: Happy, safe, and employed. I've had the opportunity to have a family and close friends, and that's the most important thing to me.

Biggest current challenge: Delegating my time. Everyone has the same amount of time and that's one thing you can't buy.

Next big goal: Open another A&W and grow the existing locations.

First turning point in your career: Leaving my first main job to open an A&W. There was a huge risk that I had to take, but it was a dream and I had to pursue it.

Best business decision: Opening an A&W. It's been a great company and a phenomenal brand. It fits perfectly in our family group.

Work week: Visiting both A&W locations 5 to 7 days a week. Doing some real estate. Working in the grocery stores. I don't have a set schedule every day or every week, and that's what I love about my job!

Exercise/workout: I don't currently, but I am active! I get 5,000 to 10,000 steps a day!

What's your passion in business? I love sales and marketing. I love everything about sales. I love customer service and working with people!

How do you balance life and work? I mix life and work. It's not for everybody, and I probably wouldn't suggest it, but it works for us.

Guilty pleasure: I have a sweet tooth! Pop and candy are my weakness.

Favorite book: *Rich Man, Poor Man.*

Favorite movie: "The Founder."

What do most people not know about you? I grew up in a one-stoplight town that happened to have an A&W!

Pet peeve: Not paying someone back or not paying your dues.

What did you want to be when you grew up? I wanted to work for a major food and beverage company in sales.

Last vacation: Florida in January 2020.

Person I'd most like to have lunch with: Mark Cuban.

MANAGEMENT

Business philosophy: Don't tell someone to do something they haven't seen you do before. You work hard for me, I'll work hard for you.

Management method or style: Very hands-on.

Greatest challenge: Continuous training and ensuring our top employees are happy.

How do others describe you? Fair and approachable.

MICHAEL VINCKIER, 27

Owner-operator

Company: A&W

Units: 2, with a 3rd opening in 2021

Family: Wife Jenna

Years in franchising: 4

Years in current position: 2

One thing I'm looking to do better: Managing my time is a continuous improvement I'm always trying to make. I also want to continue to learn in everything I do.

How I give my team room to innovate and experiment: By always asking for employees' and managers' input and suggestions. We want to be sure people feel comfortable enough to offer their thoughts!

How close are you to operations? Very close. I call myself an operator as a job title.

What are the two most important things you rely on from your franchisor? How we are doing compared with other stores or comparable markets. Industry updates.

What I need from vendors: Consistent product and communication.

Have you changed your marketing strategy in response to the economy? How? We have really focused on our four walls. We don't do TV commercials or other large marketing tactics. Facebook, social media, and excellent customer service are our main tactics.

How is social media affecting your business? It's a great tool that can be free and can reach anybody and anywhere. It connects our customers and our local communities.

How do you hire and fire? We try to hire from within. For letting go, we have an asset protection program to ensure we are covered.

How do you train and retain? We use tools and supplies provided from A&W corporate and ensure we listen to our employees. We want to emphasize that you aren't just a number with us. We care!

How do you deal with problem employees? It only takes one person to bring down the army. We deal with them directly and have conversations about the problematic areas. If improvements are not made, we use a three-strike system to ensure that problem employees do not corrupt our culture.

Fastest way into my doghouse: Lying and rude customer service.

COVID-19

What are the biggest impacts of Covid-19 on your business? We had to delay the opening of our third location to 2021 instead of 2020. But we are excited for the new opening date and it will be better than ever!

How have you responded? With positivity and ingenuity. We started offering curbside and focused on call-in and pickup ordering. We also added a bonus incentive program for our employees to let them know how important they are to the company.

What changes do you think will be permanent? The bonus program has been extremely successful, so that is something we will continue to hold.

BOTTOM LINE

Annual revenue: $2 million.

2021 goals: To open a third A&W and to increase same store sales while cutting costs.

Growth meter: How do you measure your growth? Through sales.

Vision meter: Where do you want to be in 5 years? 10 years? Continue to grow with A&W and open more A&Ws. Continue to grow in real estate and other business ventures.

Do you have brands in different segments? Why/why not? Yes! Real estate, A&W, grocery, and hardware stores. We've found that this family of businesses works really well for us. There are similar tactics involved and it provides a larger network to continue to hire from within.

How is the economy in your region affecting you, your employees, your customers? The economy hasn't affected business very much in terms of sales, which is phenomenal. Finding employees has been a bit difficult.

Are you experiencing economic growth in your market? Yes, which is very exciting.

How do changes in the economy affect the way you do business? We focus on what we can control. Our hours of operation have decreased and some dining rooms have been closed during the last few months, but sales are continuing to be steady!

How do you forecast for your business? We look back at last year's sales (daily, weekly, and monthly), last year's labor, and last year's costs.

Experience with private equity, local banks, national banks, other institutions? Why/why not? Yes, we have a great relationship with local banks who have helped us grow.

What are you doing to take care of your employees? We offer competitive wages and have a family of companies with growth opportunities. We offer insurance and bonus programs as well.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? It's tough because that is definitely one of the biggest costs, but we are continuing to monitor this. It's still of utmost importance to have the best employees.

How do you reward/recognize top-performing employees? Bonus program and incentives have worked the best. Flexible scheduling has also been a great draw to our business!

What kind of exit strategy do you have in place? I do not have that in place yet, but we have had people approach us interested in our family of businesses. This is very flattering and exciting, but we are happy operating everything for now. ■

2021 MULTI-BRAND 50

The largest franchisees in the U.S. and their 25 favorite brands

RANK	COMPANY	BRANDS	UNITS
1	FLYNN RESTAURANT GROUP		2,355
		PIZZA HUT	937
		APPLEBEE'S	444
		ARBY'S	367
		TACO BELL	280
		WENDY'S	194
		PANERA BREAD	133
2	CARROLS GROUP		1,075
		BURGER KING	1,010
		POPEYES LOUISIANA KITCHEN	65
3	SUN HOLDINGS		1,045
		BURGER KING	293
		T-MOBILE	160
		POPEYES LOUISIANA KITCHEN	150
		TACO BUENO	148
		ARBY'S	94
		GNC LIVE WELL	80
		IHOP	41
		CICIS	31
		GOLDEN CORRAL	20
		KRISPY KREME	18
		AIRPORT RESTAURANTS	10
4	KBP FOODS		895
		KFC	767
		TACO BELL	128
5	DHANANI GROUP		824
		BURGER KING	503
		POPEYES LOUISIANA KITCHEN	284
		LA MADELEINE FRENCH BAKERY & CAFE	37
6	PILOT TRAVEL CENTERS		790
		SUBWAY	235
		CINNABON	160
		DENNY'S	120
		WENDY'S	86
		MCDONALD'S	62
		ARBY'S	58
		DQ TREAT	22
		TACO BELL	18
		AUNTIE ANNE'S	11
		PIZZA HUT	7
		MOE'S SOUTHWEST GRILL	6
		BURGER KING	3
		IHOP	1
		CHESTER'S	1
7	MUY BRANDS		768
		PIZZA HUT	371
		WENDY'S	317
		TACO BELL	80
8	ARAMARK		637
		CHICK-FIL-A	122
		EINSTEIN BROS. BAGELS	108
		SUBWAY	56
		PANDA EXPRESS	45
		OATH PIZZA	39
		WHICH WICH	34
		PAPA JOHN'S	26
		MOE'S SOUTHWEST GRILL	22
		PIZZA HUT	21
		DUNKIN'	21
		STEAK 'N SHAKE	19
		FRESHII	14
		JAMBA	11
		QDOBA MEXICAN EATS	10
		TACO BELL	9
		RAISING CANE'S	7
		CHILI'S	6
		TIM HORTONS	6
		MOOYAH	5
		QUAKER STEAK & LUBE	4
		ERBERT & GERBERT'S SANDWICH SHOP	4
		QUIZNOS	4
		WENDY'S	4

RANK	COMPANY	BRANDS	UNITS
		MCALISTER'S DELI	4
		PJ'S COFFEE OF NEW ORLEANS	3
		CARIBOU COFFEE	3
		KFC	3
		BURGERFI	2
		COSI	2
		DUNN BROTHERS COFFEE	2
		PANERA BREAD	2
		VILLAGE JUICE CO.	2
		BEEF 'O' BRADY'S	2
		PINKBERRY	2
		WAHOO'S FISH TACO	2
		NATHAN'S FAMOUS	2
		FIREHOUSE SUBS	2
		EXTREME PITA	2
		IHOP	2
		LA MADELEINE FRENCH BAKERY & CAFE	2
		DENNY'S	1
9	**LOVE'S TRAVEL STOPS & COUNTRY STORES**		**534**
		SUBWAY	229
		GODFATHER'S PIZZA	122
		CHESTER'S	119
		HARDEE'S	50
		TACO JOHN'S	4
		IHOP	3
		DUNKIN'	3
		ARBY'S	2
		DQ TREAT	2
9	**ARMY & AIR FORCE EXCHANGE SERVICES**		**534**
		SUBWAY	137
		BURGER KING	109
		CHARLEYS	82
		POPEYES LOUISIANA KITCHEN	56
		TACO BELL	40
		ARBY'S	29
		EINSTEIN BROS. BAGELS	20
		QDOBA MEXICAN EATS	17
		MANCHU WOK	10
		DUNKIN'	7
		WINGZONE	6
		BASKIN-ROBBINS	6
		BLIMPIE	6
		PIZZA HUT	5
		TACO JOHN'S	2
		SLIM CHICKENS	2
11	**GPS HOSPITALITY**		**480**
		BURGER KING	394
		PIZZA HUT	67

RANK	COMPANY	BRANDS	UNITS
		POPEYES LOUISIANA KITCHEN	19
12	**SPEEDWAY**		**477**
		DUNKIN'	450
		SUBWAY	16
		WENDY'S	11
13	**SUMMIT RESTAURANT GROUP**		**390**
		IHOP	271
		APPLEBEE'S	119
14	**AMPEX BRANDS**		**382**
		KFC	202
		PIZZA HUT	141
		LONG JOHN SILVER'S	39
15	**HARMAN MANAGEMENT**		**374**
		KFC	256
		A&W	113
		LONG JOHN SILVER'S	5
16	**SIZZLING PLATTER**		**368**
		LITTLE CAESARS	258
		WINGSTOP	62
		DUNKIN'	27
		SIZZLER	15
		RED ROBIN	6
16	**JIB MANAGEMENT/YADAV ENTERPRISES**		**368**
		JACK IN THE BOX	221
		DENNY'S	81
		TGI FRIDAYS	66
18	**CHARTER FOODS**		**340**
		TACO BELL	258
		LONG JOHN SILVER'S	50
		KFC	24
		PIZZA HUT	8
19	**COMPASS GROUP USA**		**323**
		EINSTEIN BROS. BAGELS	54
		SUBWAY	43
		BLIMPIE	35
		DUNKIN'	23
		PAPA JOHN'S	22
		PANDA EXPRESS	21
		PIZZA HUT	14
		MOE'S SOUTHWEST GRILL	11
		JAMBA	10
		SALSARITA'S FRESH MEXICAN GRILL	6
		STEAK 'N SHAKE	6
		TACO BELL	5
		SMASHBURGER	5
		WENDY'S	5
		PJ'S COFFEE OF NEW ORLEANS	4
		CARIBOU COFFEE	4

RANK	COMPANY	BRANDS	UNITS
		TIM HORTONS	3
		CHILI'S	3
		QUIZNOS	3
		WHICH WICH	3
		FIREHOUSE SUBS	2
		FREDDY'S FROZEN CUSTARD & STEAKBURGERS	2
		MARCO'S PIZZA	2
		SBARRO	2
		FRESHII	2
		ERBERT & GERBERT'S SANDWICH SHOP	2
		BASKIN-ROBBINS	2
		ILLY	2
		JOHNNY ROCKETS	2
		PLANET SMOOTHIE	2
		POPEYES LOUISIANA KITCHEN	2
		BEN & JERRY'S	2
		PITA PIT	2
		QDOBA MEXICAN EATS	2
		BURGER KING	2
		KFC	2
		IHOP	2
		SLIM CHICKENS	2
		JASON'S DELI	2
		NATHAN'S FAMOUS	2
		CALIFORNIA TORTILLA	1
		DENNY'S	1
		BOJANGLES'	1
19	**SODEXO**		**323**
		CHICK-FIL-A	74
		EINSTEIN BROS. BAGELS	69
		SUBWAY	38
		PIZZA HUT	23
		DUNKIN'	21
		JAMBA	11
		MOE'S SOUTHWEST GRILL	8
		TACO BELL	8
		QDOBA MEXICAN EATS	7
		STEAK 'N SHAKE	7
		PAPA JOHN'S	6
		ERBERT & GERBERT'S SANDWICH SHOP	6
		GARBANZO MEDITERRANEAN FRESH	5
		BAJA FRESH	5
		THE HABIT BURGER GRILL	3
		BURGER KING	3
		HOT STUFF PIZZA	3
		MCALISTER'S DELI	3

RANK	COMPANY	BRANDS	UNITS
		CARIBOU COFFEE	2
		BASKIN-ROBBINS	2
		GODFATHER'S PIZZA	2
		COSI	2
		QUIZNOS	2
		SBARRO	2
		PANERA BREAD	2
		BLAZE PIZZA	2
		DQ TREAT	2
		TIM HORTONS	2
		MOOYAH	2
		DENNY'S	1
21	**WKS RESTAURANT GROUP**		**322**
		DENNY'S	126
		WENDY'S	86
		EL POLLO LOCO	66
		KRISPY KREME	34
		BLAZE PIZZA	10
22	**THE COVELLI FAMILY LTD PARTNERSHIP**		**316**
		PANERA BREAD	303
		DQ GRILL & CHILL/DQ TREAT	8
		O'CHARLEY'S	5
23	**PACIFIC BELLS**		**307**
		TACO BELL	240
		KFC	67
24	**K-MAC ENTERPRISES**		**306**
		TACO BELL	289
		KFC	11
		GOLDEN CORRAL	6
25	**DESERT DE ORO FOODS**		**297**
		TACO BELL	209
		PIZZA HUT	88
26	**G&M OIL CO**		**296**
		CHEVRON	157
		EXTRAMILE	131
		TEXACO	8
27	**HAZA FOODS**		**276**
		WENDY'S	250
		TACO BELL	26
28	**MANNA/BRIDGEMAN FOODS**		**267**
		WENDY'S	157
		FAZOLI'S	83
		GOLDEN CORRAL	27
29	**TA OPERATING**		**265**
		POPEYES LOUISIANA KITCHEN	68
		TACO BELL	37
		SUBWAY	36
		BURGER KING	34
		PIZZA HUT	29
		DUNKIN'	19

RANK	COMPANY	BRANDS	UNITS
		ARBY'S	7
		FUDDRUCKERS	4
		CHARLEYS	4
		FAZOLI'S	3
		A&W	3
		WENDY'S	3
		BLACK BEAR DINER	2
		KFC	2
		CARL'S JR.	2
		TACOTIME	2
		HOT STUFF PIZZA	2
		IHOP	2
		BASKIN-ROBBINS	2
		SUPER 8 BY WYNDHAM	2
		NOBLE ROMAN'S	2
30	**CIRCLE K STORES**		**253**
		SUBWAY	165
		BLIMPIE	37
		HOT STUFF PIZZA	18
		CHURCH'S CHICKEN	9
		HARDEE'S	6
		DQ TREAT	5
		DQ GRILL & CHILL	4
		NOBLE ROMAN'S	3
		HUDDLE HOUSE	2
		CHEVRON	2
		TEXACO	2
31	**MITRA QSR**		**248**
		KFC	205
		TACO BELL	43
32	**FUGATE ENTERPRISES**		**243**
		PIZZA HUT	168
		TACO BELL	75
33	**HMSHOST**		**237**
		BURGER KING	60
		SBARRO	22
		POPEYES LOUISIANA KITCHEN	19
		QUIZNOS	15
		CHILI'S	15
		ROY ROGERS	14
		CHICK-FIL-A	12
		NATHAN'S FAMOUS	12
		SMASHBURGER	5
		GREAT STEAK	5
		PANDA EXPRESS	4
		KFC	4
		MANCHU WOK	4
		FIREHOUSE SUBS	4
		LA MADELEINE FRENCH BAKERY & CAFE	3
		JOHNNY ROCKETS	3
		STEAK 'N SHAKE	3
		PINKBERRY	3
		CARL'S JR.	2
		BURGERFI	2
		BLAZE PIZZA	2
		BURGER 21	2
		YEUNG'S LOTUS EXPRESS	2
		KELLY'S CAJUN GRILL	2
		BLIMPIE	2
		THE COUNTER	2
		COLD STONE CREAMERY	2
		PACIUGO GELATO & CAFFE	2
		UNA MAS	2
		A&W	2
		BAJA FRESH	2
		COUSINS SUBS	2
		WINGSTOP	2
34	**APPLE HOSPITALITY REIT**		**235**
		HILTON GARDEN INN	45
		COURTYARD BY MARRIOTT	39
		HAMPTON INN BY HILTON	39
		HOMEWOOD SUITES BY HILTON	36
		RESIDENCE INN BY MARRIOTT	34
		SPRINGHILL SUITES BY MARRIOTT	13
		FAIRFIELD BY MARRIOTT	9
		TOWNEPLACE SUITES BY MARRIOTT	9
		HOME2 SUITES BY HILTON	6
		EMBASSY SUITES BY HILTON	3
		MARRIOTT HOTELS	2
35	**ADF COMPANIES**		**233**
		PIZZA HUT	218
		PANERA BREAD	15
36	**ALVARADO CONCEPTS/PALO ALTO**		**232**
		TACO BELL	200
		KFC	32
37	**DIVERSIFIED RESTAURANT GROUP**		**230**
		TACO BELL	214
		ARBY'S	16
38	**QUALITY DINING**		**228**
		BURGER KING	189
		CHILI'S	39
39	**MARLU INVESTMENT GROUP**		**224**
		ARBY'S	115
		LITTLE CAESARS	40

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RANK	COMPANY	BRANDS	UNITS
		CHURCH'S CHICKEN	27
		JACK IN THE BOX	20
		TGI FRIDAYS	22
40	**PREMIER KINGS**		**220**
		BURGER KING	198
		POPEYES LOUISIANA KITCHEN	22
41	**QUALITY HUTS MIDWEST**		**219**
		PIZZA HUT	192
		ARBY'S	27
42	**TASTY RESTAURANT GROUP**		**216**
		PIZZA HUT	153
		BURGER KING	63
43	**BORDER FOODS**		**204**
		TACO BELL	190
		CHURCH'S CHICKEN	14
43	**EYM GROUP**		**204**
		PIZZA HUT	174
		BURGER KING	30
45	**COTTI FOODS**		**196**
		WENDY'S	106
		TACO BELL	85

RANK	COMPANY	BRANDS	UNITS
		PIEOLOGY PIZZERIA	5
46	**WENDY'S OF COLORADO SPRINGS**		**189**
		WENDY'S	181
		GOLDEN CORRAL	8
47	**FEAST ENTERPRISES**		**185**
		JACK IN THE BOX	132
		DENNY'S	35
		CORNER BAKERY CAFE	18
48	**NORTHWEST RESTAURANTS**		**181**
		TACO BELL	117
		KFC	52
		A&W	12
49	**TEAM LYDERS**		**175**
		TACO BELL	162
		KFC	7
		PIZZA HUT	3
		ARBY'S	3
50	**HAMRA ENTERPRISES**		**170**
		WENDY'S	91
		PANERA BREAD	70
		NOODLES & COMPANY	8
		HOLIDAY INN	1

TOP 25 BRANDS OF THE 2021 MULTI-BRAND 50

RANK	BRAND	UNITS
1	BURGER KING	2,904
2	TACO BELL	2,713
3	PIZZA HUT	2,619
4	KFC	1,634
5	WENDY'S	1,491
6	SUBWAY	955
7	ARBY'S	718
8	POPEYES LOUISIANA KITCHEN	682
9	DUNKIN'	571
10	APPLEBEE'S	563
11	PANERA BREAD	525
12	JACK IN THE BOX	373
13	DENNY'S	365

RANK	BRAND	UNITS
14	IHOP	322
15	LITTLE CAESARS	298
16	EINSTEIN BROS. BAGELS	251
17	CHICK-FIL-A	208
18	T-MOBILE	160
18	CINNABON	160
20	CHEVRON	159
21	TACO BUENO	148
22	EXTRAMILE	131
23	A&W	130
24	GODFATHER'S PIZZA	124
25	CHESTER'S	120

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THE BIGGEST DEAL

Flynn Group's takeover of NPC's assets sets record

Written By **EDDY GOLDBERG**

Kansas City-based NPC International, until recently the second-largest franchisee group in the United States, is no more. After ongoing financial struggles, NPC—formerly the country's largest Wendy's and Pizza Hut franchisee with $1.6 billion in sales from its 1,229 Pizza Huts and 393 Wendy's at the end of 2019, filed for bankruptcy in July 2020.

Already overleveraged and with creditors barking at its door, NPC's hopes for recovery were dashed by the arrival of the Covid pandemic in March 2020. Declaring bankruptcy in July was the beginning of a legal workout process that finally wrapped up a year later, on March 25, 2021, with NPC's 937 remaining Pizza Huts and 194 of its Wendy's acquired by the Flynn Restaurant Group (FRG) in a reported $553 million deal.

FRG, based in San Francisco, is now—by far—the largest franchisee group in the United States. With the acquisition, FRG nearly doubled its restaurant count and now operates 2,355 QSR, fast casual, and casual dining restaurants, with $3.5 billion in annual sales and employs about 73,000 people in 44 states.

The historic transaction was made possible with investments from FRG's long-term financial partners: private equity firm Main Post Partners, and the Ontario Teachers' Pension Plan Board, administrator of more than C$200 billion in net assets.

As a result of the acquisition, FRG is now the largest franchise operator and one of the 20 largest food service companies of any kind in the U.S. Brand by brand, FRG ranks among the top 5 operators of six of the country's most well-known and popular brands:

Applebee's	444	1st largest	Panera Bread	133	2nd largest
Arby's	367	1st largest	Taco Bell	280	3rd largest
Pizza Hut	937	1st largest	Wendy's	194	5th largest

We sat down (virtually, of course) with Greg Flynn, founder, chairman, and CEO of FRG—and with Dean Zuccarello, founder and CEO of The Cypress Group, who played a pivotal role in completing the massive transaction. Their stories are on the following pages.

THE HEART OF THE DEAL

"I would like to be recognized not so much as the biggest operator, but as one of the best operators."

Written By **EDDY GOLDBERG**

Tell us why you pursued this deal.
One of the most interesting things about the overall opportunity is what a perfect fit it was with our existing businesses and with our objective to evolve the composition of our overall business. We have a goal of being diversified in the restaurant industry, roughly mirroring the composition of the industry itself. We had flags planted in all of the major segments: quick service with Taco Bell and Arby's, fast casual with Panera, and casual dining with Applebee's, but we were light in QSR.

If you look at QSR, the two biggest subsegments are burgers and pizza, in that order, and we had nothing in burgers and pizza. We also like to play at scale for the scale economies, but also so we can also be a collaborative partner with our franchisors and have a seat at the table.

NPC represented entry into the very subsegments we weren't already in and to do so at scale. It's like a unicorn, it was just a perfect fit. If I set out to find a business like NPC's that didn't happen to exist, you would think that you would never find it. And there it was.

In a previous interview with this magazine (Q3 2019), you told us that you built your organization on debt and cash flow. How did you finance this deal?
NPC is different than our previous acquisitions. It's bigger, and there was really no possibility of financing it just with debt and cash flow. So we're bringing in more than $300 million in fresh outside equity that's coming from the existing owners of the business, including myself.

We decided to finance it very conservatively. We're putting separate debt facilities in place for each of the brands, but the debt is going to be supported by that big injection of new cash equity into the business. Because we're financing the NPC assets so conservatively, if you combine the businesses and look at their overall level of debt and cash flow, we're actually more conservatively financed than before the acquisition. This transaction actually will be delevering for us overall.

It was NPC's debt that allowed the lenders to control the company and sell it in bankruptcy. We're not assuming any of that debt. We're getting new loans for each of the new businesses, but a lot less. For instance, NPC had approximately $900 million in debt. We're coming with about $250 million in debt.

We're not buying all of the assets, but that gives you a sense that they had so much more debt on the business than we have going in. We're going to be in a much more financially secure position from the get-go.

Why is diversification so important to you?
I learned a lesson early on that you should not have all your eggs in one basket, that you should be meaningfully diversified. So that's why, from the very beginning, I've been in two businesses: real estate and restaurants. And that within restaurants I want to be diversified, because you want to be in a position to weather whatever storm comes along. And of course 2020 was the perfect storm. If I'd been in nothing but Applebee's it would have been a much harder year than having hundreds of QSR restaurants with drive-thrus.

We very deliberately set out to be diversified not only between segments and brands in the restaurant industry, but also geographically so that we can weather whatever geographically specific threats may arise, and there are lots of them. Hurricane Sandy shut a lot of restaurants down and that hurt us a little bit, but we had lots that weren't affected at all; or the long-term recession in the Rust Belt, or the housing bubble bursting especially hard in Southern California. All of those things happen, but none of them is enough to really move the needle on our whole business.

Why doesn't everybody do this?
The hardest part is running your restaurants well every day, year after year. We've just done it at a greater scale than most. It all starts with that, and with figuring out how to keep running them well as you grow. Growth in many ways facilitates good operations in that you have the financial resources to reinvest in your business, to keep it fully staffed, and to adopt technologies, which really helps. But the biggest benefit is in being attractive to great employees, who value the advancement opportunities and excitement that growth can offer.

Our belief is that running our restaurants well day in and day out is the mission-critical task. It's that which affects our outcome the most. What the franchisors do matters, of course—menu and marketing and design of prototypes and training programs. That all matters. But if we don't run our restaurants well, then what they do doesn't matter enough to save us. (Laughs.) And likewise, even if our franchisors occasionally are a little less effective at what they do, if we keep running our restaurants well, we'll be fine.

How do you make it all work so well?
I like the analogy of a fleet of ships. We've been able to grow at a very high rate—just under 30% per year compounded for 21 years now—and we've managed to do that while running our restaurants well. If we weren't running our restaurants well, then we should just stop acquisitions or growth of any sort until we get our house in shape. But we've managed to.

An advantage of a decentralized model like ours is that it is much less rigid than a traditional command-and-control hierarchy. Think of a pyramid. What have you got—a person on the top, and the whole organization below them exists basically to implement those decisions. That's a very rigid structure. So if you try to add something by acquisition, the whole structure needs to adjust to accommodate the addition. It's disruptive.

So if you think about our model as a fleet of ships, and the fleet can be sailing in any direction, you can add another ship to it and it has no effect whatsoever on the effective navigation of the existing fleet. Now it affects the people who are supporting these restaurants, and that's a lot of work. But our existing operations haven't been affected at all by the now 21 acquisitions we've done.

We've tested this model now over more than two decades and four concepts and it works very well for us. So we have every reason to expect that it will work very well for us in our new businesses as well.

What is technology's role in making it possible to steer an organization this large?
We have very, very good information systems. We use Microsoft's Power BI, which allows us to understand our business with great depth and very clear reporting, so we know in real time what the levers are that are really driving our business, and we know where to focus our efforts. And we can share that information with our operators and help them understand what really matters and what we ought to be focusing on. So that's the information technology. Then there are all sorts of restaurant technologies that are making us more and more efficient all the time and making the guest experience more frictionless.

I think the main takeaway here is that you need very good information and reporting systems to keep track of everything that's going on at an enterprise of our scale and as diversified as we are. And we have that. I know what's going on in our business very well. I probably know more about our business than many small operators know about their businesses, because it hasn't been a priority for them and they don't have the systems.

How are you managing the transition of nearly 25,000 employees into your organization?
What we've always done in the past is a series of road shows where we go to the markets and meet with the new people who are joining us—from the restaurant general manager level on up. We tell our story, share our plans for the business with them, and let them see our faces and know that we're just real, regular people, just like them, and there's nothing to be afraid of. In this case we couldn't do that because of Covid, but we did do nine virtual road shows that covered approximately the same content. It wasn't as much fun because we didn't get to see everyone in person, but it still gave us an opportunity to share our stories and address some of the concerns of the people who are coming on board.

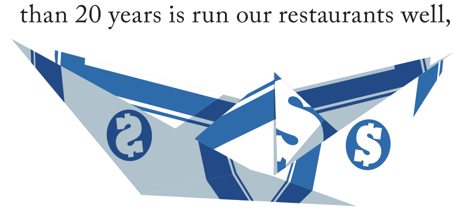
Another thing that we do is match up the leaders of the new businesses with our existing people, especially the ones who have gone through a transition like this with us. It's an opportunity for them to ask questions and to provide the resources for them to figure out how things work. But most importantly, it allows them to see firsthand that someone else went through the same thing and landed in a very good place. That's what we really hope they all conclude. Being acquired by anyone can be scary or make you nervous. But we've seen over and over again that it turns out to be a great outcome, and we have every reason to expect that it will be with NPC as well.

How do you think what you're doing is affecting how franchisors think about large multi-brand operators?
I like to think that it is making them appreciate the benefits of scale operators, and setting their minds a bit at rest about the threat that larger operators might represent. We are totally dedicated to being collaborative partners with our franchisors, never throwing our weight around or letting the fact that we have a lot of restaurants make us act any way differently than if we only had a few. What we want to do is the right thing as a system, never going rogue.

We operate with very real scale economies. This helps us to execute well, and I think they see that. We also have really deep financial resources to invest in our business that can help us make it through tough times.

It's been a multi-decade project of trying to make franchisors understand that big isn't necessarily bad. It can be bad, but it can be good too. And we've set out to prove to them that in our case big is good, that it helps us execute well in our business and benefits them without posing a threat.

Ultimately, our franchisors will judge us by what we do. And what we have shown we will do in all of our systems over more than 20 years is run our restaurants well,



keep them in good condition, build new ones, and be constructive thought partners and system leaders. I think that's what franchisors really care about.

Did you hit any speed bumps in the process?
Wendy's was concerned that Arby's and Panera were competitive with them, and that's a legitimate concern. We just had to convince them that may be the case, but since we really weren't in a position to sell those businesses (we've never sold anything), let us convince you why it's worth it to make an exception for us because we'll be great franchisees—we'll invest in the brand, we'll build new restaurants, we'll remodel the ones we have, we'll run them well, and we'll be very collaborative with you, the franchisor. And ultimately, that's what happened. They got over their concerns, realizing that the benefits outweighed them.

Did you think you could pull this off?
It was a long shot to be able to buy the whole thing. I think everyone expected that both businesses, both portfolios, would be broken up and sold in pieces. I appreciated that there were very few people who could probably buy it as a whole. I felt we could finance it, we could integrate it, we could run it, and we could get approved by the franchisors. There certainly were private equity firms who could have taken down the whole business, and a couple I know were interested in it. But that's not enough. You also have to be able to prove to the franchisors that you can run these restaurants once you buy them, and we had a real distinct advantage there: the combination that we had the financial resources to buy the whole thing and we had the track record to illustrate that we could run it after we bought it.

How many people told you you were crazy?
(Laughs.) A few! It was a large bet and there were some skeptics, even on our team. The stakes were high. But it was such a wonderful fit with our business that I made the decision early on that we were going to run very hard at this and would spend the money it took to get in the best position to be chosen as the buyer.

How many people in your management team told you you were nuts?
(Laughs again.) A few.

How did you manage to persevere in the face of doubters?
When I think of my role as CEO of this business, it really is to think about where do we want to go, how are we going to get there, and to spot opportunities that can take us there. Right from the very beginning I saw, this is our opportunity. It took some convincing for our management team, our investors, and ultimately a lot of lenders, and I had to convince all the franchisors it was a good idea. But I believed in it so much, and for what I thought were good reasons that I could articulate to any doubters. Ultimately, I think we just got everyone to see how much sense this made. And that's what it took. Once they saw it, their eyes opened, and everyone got on board. It kind of went from being Flynn's Folly to, "You're right, this is really an opportunity! This really does make sense. Let's do it!"

> In our business, we divide and conquer. We are a restaurant operating business; that's mission-critical for what we do. Everything we do goes to support that. I am not myself a restaurant operator, but I do preach the extreme importance of it. And so we have teams that do that, and they're excellent. But that doesn't need to be me.

Back to the fleet of ships. You're the guy on the bridge with the telescope scanning the horizon for opportunity?
Yes, that's funny. And you need people to do all of those things we've discussed. In our business, we divide and conquer. We are a restaurant operating business; that's mission-critical for what we do. Everything we do goes to support that. I am not myself a restaurant operator, but I do preach the extreme importance of it. And so we have teams that do that, and they're excellent. But that doesn't need to be me. What I need to do is have a healthy appreciation of it, and an ability to attract great team members who can get that done.

But then there are the other needs of the business. There's the strategic vision that is my job. There's financing the whole thing, that's partly my job and partly the job of Lorin Cortina, my great long-term partner and our CFO. As I said, we divide and conquer to get all this stuff done and it works really well.

How do you think what you're doing reflects any trends in franchising?
There has been consolidation in the franchise space. The size of some of the larger players is definitely rising, and we're part of that. I would like to be recognized not so much as the biggest operator, but as one of the best operators. That's what I really care about. And the one that showed the industry, especially our franchisor partners, that big isn't necessarily bad. In fact, big can help you be great.

I think the other thing that really was a change was starting in 2001 when we brought in Goldman Sachs as a private equity investor. That was the first time I'm aware of that a private equity investment of serious size was made in a franchise operator. And now there's lots of that, of course.

And in the debt financing realm, I think we had the largest facility of classic franchise finance, with a 13-bank syndicate. My partner and our CFO, Lorin Cortina, heard from everyone all the time that we were going to outgrow that debt universe and needed to look elsewhere. But he just kept growing the whole sector by bringing more lenders in. And the bigger we got and the more we survived various cycles and events, the more lenders realized, "Wow, this is a pretty good place to lend to and captaindsfranchising.com

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this is a good borrower." He pushed it well beyond the limits of what most people 20 years ago thought was the capacity of that whole lending universe. That was important too, because this thing does take a lot of money.

We've had bank syndicates as large as 15, I think—the point being that there had never been a syndicate that large in franchising or involved with so many banks before us. And that's one of the contributions I think we've made to the trend toward consolidation and showing that it could be done.

In late 2019 you told us, "It's been a hell of a ride—and we are only halfway through." You just doubled, so are you done now?
(Laughs.) I don't know if this is the 2nd inning or the 8th inning, but I know the game's not over.

You also said that in 10 years you wouldn't be surprised to have a meaningful international presence. Is that still in the cards?
Yes. We're nothing if not opportunistic. It's a big world, and there is undoubtedly good opportunity outside of the United States. We haven't been focused on it because we've had so much opportunity within the United States, but at some point it will probably make sense to start looking abroad.

Are you still planning to give it all away to charity someday?
Yes. My life plan is modeled loosely on my uncle's life plan, who modeled it on Andrew Carnegie's life plan, and I don't know where Carnegie got it. You divide your life into thirds: "Learn, Earn, and Return." I spent about until age 30 in the Learn part of it. I'm now in the Earn part of it. One of these days I'll move into the Return phase. ■

IN THIS ARTICLE

Greg Flynn

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THE DEAN OF THE DEAL

How the Cypress Group facilitated the biggest deal in franchising

Written By **EDDY GOLDBERG**

Dean Zuccarello, CEO and founder of The Cypress Group, played a key role in completing this record-breaking transaction. We asked him to recount his role, his experience, and what a mega deal like this says about the state of franchising in 2021.

What role did you play in Flynn Restaurant Group's acquisition of more than 1,100 restaurants from NPC International?

Before the bankruptcy, NPC had hired a couple of advisory groups to help them with their situation. AlixPartners was hired as NPC's financial consultants in terms of restructuring, and Greenhill & Co. was their bankruptcy investment advisor. Alix and Greenhill were initially brought in to deal with the upside-down capital structure and how to best navigate through it. Weil was brought in as their pre-bankruptcy counsel. At that stage, the bankruptcy route had been discussed and was certainly on the table, but a final decision to take the company into Chapter 11 had not been made.

We got a call in February 2020 from Houlihan Lokey, the financial advisor to the lender group. At that point, the lender group wanted Cypress to be involved in what was going to be an M&A process for the restaurant assets in the transaction. We were hired shortly thereafter to act as co-manager with Greenhill on the M&A aspect of the deal.

Why you?

Folks at the lender group had reached out to several people who recommended us as the best company to represent the M&A transaction. Given our 30-plus years of specialization in franchising and restaurants, our M&A experience, and our relationships in the industry, we have developed a strong reputation in this area.

Once you were formally engaged, then what?

Very early on in the engagement, and before we were "in the market," we reached out to a limited number of select groups we knew would be interested, just to give them a heads-up that the transaction would be coming down the road. Greg Flynn was one of the people we spoke with at that time.

I had conversations with Wendy's as well because we have relationships there. We wanted to start a dialogue with them early, as we knew they would have an interest in the outcome of the process. We weren't going out on a broad basis by then, but a handful of what we would call "logical suspects" got a phone call that said, "Hey, by the way, we've just been engaged on this. We're not sure how it is going to unfold, but you might want to get it on your radar."

That was at a very early stage of the process. Pretty quickly after we were engaged, we started developing the book, the CIM (Confidential Information Memorandum),

with the intent of going to market. We were working with the Alix and Greenhill teams, as well as with NPC management—going through what the trailing numbers looked like, and the future numbers and projections. All this happened pre-bankruptcy while preparing to go to market.

Fairly early on, in March 2020, we had our model and our book pretty much done and were ready to go to market when the pandemic hit hard. Given the uncertainty around Covid, everyone collectively decided we needed to hit the pause button, but there were ongoing conversations to get ready for the eventuality that we would come back to market. There was a period last March through April where nobody really knew what was going to happen in the world.

Looking in the rearview mirror, we were pleased to see the traction QSR gained during the pandemic; that after the initial shock of restaurants closing, people in the QSR segment were finding ways to serve customers, primarily with drive-thrus. I don't recall if they were doing takeout at that point. Regardless, the upward sales trend continued to build upon itself to the point where the stakeholders of NPC reevaluated the pause in May and said, "We think this is on the right trajectory for us to go to market." The company filed for bankruptcy at the beginning of July and we immediately launched the M&A process for the Wendy's assets.

This sounds exciting!
It's the biggest deal Cypress has ever been involved with. We were involved in a large securitization deal, about $700 million to $750 million, 10 to 15 years ago. But from an M&A standpoint, this is certainly the biggest. In 2018, we managed the sale of US Beef, which at the time was the largest franchisee transaction in the industry, so we certainly had experience in this size arena. Now NPC is the largest. So from Cypress' standpoint, NPC is now our largest transaction on record, which is indeed quite exciting.

What happened next?
Up to that point, we had been doing all the normal things we would do in an M&A process in terms of the strategy: deciding who we would be going out to, compiling our target prospect lists, getting the materials ready, and so on. Once the decision was made, we started the process of reaching out to the folks on our target prospect list.

Now that this was officially a bankruptcy process, we wanted to go to market in a fairly broad fashion in order to reach out to more potentially qualified buyer candidates. Due to the confidentiality constraints in many M&A processes, we distribute to a far smaller group, but this was a big deal—it was already out in the world, and everybody knew about it. That was Step A. Then it was just the normal blocking and tackling in the M&A process in terms of managing those discussions and negotiations.

The book and the process that we produced, specifically on the Wendy's side of the business, had 8 distinct markets. We looked at the possibility that those markets might be sold individually in 8 separate transactions or some subset of that, or there might be a buyer interested in the whole thing.

Who were the interested buyers?
We had great participation in the process. There was a tremendous amount of interest across the board from a diverse group of candidates that all showed interest in the transaction at varying levels. It was the logical suspects: existing franchisees either already in the Wendy's and/or Pizza Hut systems, or in other systems looking to get into a different brand and who understood franchise restaurants or the franchise model; private equity groups, some that had a tremendous amount of restaurant franchise experience and some that did not; family offices; SPACs; and large strategics like Greg Flynn and others who were interested as well.

Needless to say, we found ourselves juggling a number of different groups. Some wanted to buy specific markets in the Wendy's process, while others wanted to buy all the Wendy's, and we even had groups that wanted to buy Wendy's and Pizza Hut, even though the Pizza Hut process hadn't even formally started yet.

So that was the undertaking, managing through what would ultimately be the best solution for NPC, taking into consideration the proceeds, confidence of closure, franchisor concerns and their approval rights, and all of those kinds of things. NPC, as the seller of the assets, needed to have the approval of the lender group because they were the ones holding all the paper. Everybody had to be aligned. This was a central part of the process.

What criteria did you use to evaluate the potential buyers?
You start with the valuation. At the end of the day, it's not *all* about the money, but it's primarily about the money, especially for the lenders in the bankruptcy. The bankruptcy process is designed to provide the best recovery for the company and its creditors. Thus, it starts with the highest quote and the best proceeds.

But that's not the exclusive goal. You also have franchisor approval dynamics, so a crucial part of the process is taking into consideration who might be friendly; a group the franchisors would prefer or endorse, versus somebody they might object to.

There's also the surety of closing—which is essentially selecting a group that you feel is going to get the deal done at the end of the day. The bankruptcy process forces that a little more than a traditional M&A deal, where you may have some wiggle room for buyers to bail. If you fail to perform in the bankruptcy process, the consequences are far more severe. You lose a lot of money, and the consequences for failing to perform can be harsh. There is a lot of due diligence, and those issues must be completed in advance of a selection process, which can be different from a traditional M&A transaction.

Therefore, selection starts with the quantitative factor, with the money, and who has an acceptable purchase price that ultimately makes sense for the company and for the creditors to accept. Then it moves on to deciding who we feel from a qualitative standpoint is going to be the best buyer. Who's going to get the deal done? Who's going to appeal to the franchisors, who want to make sure that, culturally, this would-be new franchisee is the right fit within their organization?

The goal at the end of the day is to find a collaborative solution that works for the seller, the company, the lender group in terms of proceeds, the buyers, and the franchisors, who have a seat at the table. The ultimate goal is to get everybody nodding their heads in the same direction. Thankfully that's how this deal ended up: we got everybody to consent to the transaction.

In any deal, no one party ever gets 100% of what they want, but at the end of the day, I think that the outcome here was positive for everyone.

Why was the decision made to sell Wendy's first?
Strategically, at the time the initial decision was being made, the Wendy's assets were viewed as more valuable and better performing than the Pizza Hut assets. NPC and the lenders had decided that they should start this process with a higher

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level of recovery by pursuing the Wendy's transaction first.

At that point there was some discussion internally about whether to even sell the Pizza Huts. "Do we wait? Do we see Pizza Hut as a brand that has some improvement down the road that we can benefit from?" Those kinds of questions. There were also questions around the overall Pizza Hut portfolio, which at the time was more than 1,200 restaurants.

With the Pizza Hut brand starting to improve and getting some positive momentum in Covid, paired with the fact that NPC was able to reach an agreement with Pizza Hut on the closure of 300 units, the overall portfolio became significantly more attractive.

That was all transpiring while we were already out in the market with the Wendy's portion, and this is what ultimately resulted in the Pizza Hut process being undertaken as well. It was this plus the fact that we had groups like Greg's and a few others that had indicated they were interested in the whole enchilada, even before Pizza Hut was technically for sale.

Flynn said adding those two brands was a perfect fit for his group.

Yes, which is why he was one of my early phone calls. It was pretty clear to me that from a portfolio standpoint, this would be a really nice fit for him. Greg didn't have pizza and he was already in the Yum! system, so he had a relationship with one of the franchisors. He didn't have a QSR hamburger concept either, and Wendy's is a very attractive, well-performing QSR hamburger brand.

I think my initial question was, "Does he have the appetite for it?" You could make the argument that strategically it made sense portfolio-wise, but would he be interested in pursuing it? I got a sense early on that he saw the value in doing this deal and was going to move forward on it. He had done very well with his organization. His financial partners were also very supportive. If they weren't, I don't believe he would have been able to get it done. So all of those things were positives for him. Greg is also a top-notch operator, which certainly helped with franchisor approval.

How do you view this deal as an indicator for the future of franchising?

Clearly, we are going to continue to see consolidation because the franchise model supports it, the unit economics support it with efficiencies of G&A, etc. That being said, franchisors have grown concerned with overall franchisee size and geographic diversification, so there will be some constraints from the franchisor's standpoint in terms of what they're going to allow in future mergers. But generally, we are going to continue to see this trend of consolidation.

However, there's another piece I don't think people are talking about. I also think we are going to see some level of *de*-consolidation in the future. People like Greg, or other large franchisees, people who have amassed hundreds of restaurants, might unwind those holdings—not as total portfolios, but in smaller transactions. For example, who do you sell to if you're Greg Flynn? Some kind of behemoth private equity firm? Well, that's going to create all kinds of consternation with the franchisors, so an exit strategy might be to sell Wendy's off in 3 transactions, Arby's in 5 transactions, and so on. I truly think we are going to see an element of that as well. When bigger operators reach the point where they are looking for an exit strategy, we might see some deconsolidation.

We will also continue to see consolidation in the "normal" types of transactions—franchisees selling 20, 30, or 40 units getting picked up by other franchisees looking to get bigger.

Clearly something learned from the pandemic was the huge value of having a drive-thru or being in the QSR segment. The risk tolerance of that segment has opened a lot of people's eyes. When Covid hit, the hamburger and pizza places were still surviving while the sit-down places were not. I think that continues to resonate with a lot of people, even people who know that at some point the pandemic is going to be behind us.

People will go back to sit-down restaurants, but I still think we are going to see a climate of increasing valuations in the QSR segment. The valuation trends will continue to soar for QSR because of the risk testing we saw through the pandemic. The world partially shut down, but they were still selling pizzas and hamburgers.

You've been involved in a lot of franchise restaurant deals over the past 30 years. Besides the size of this one, what was most interesting for you?

The different number of groups involved. You had two separate franchisors with their financial advisors and investment bankers. Within our side of the transaction, we had the company advisors, the lender advisor groups, and everybody had lawyers. At certain times that can be very frustrating and challenging, but it's an interesting dynamic to work through, especially when you're able to come out the other end with a successful transaction, having effectively dealt with all of those different factors and variables. When it's done, you sit back and say, "Wow, we really learned something through that process!" It was really interesting how it all came together, given all the diverse viewpoints and interests.

So when you got involved in February 2020, did you think it would all work out?

We had confidence in the process from the beginning. We liked the brands. Wendy's was certainly doing extremely well. Pizza Hut had some recent hiccups, but they seemed like they were trending in the right direction. So from that standpoint, we felt good about it. Covid just threw everybody a curveball. Nobody had any idea that was coming, and when it showed up, what its subsequent impact would be. For all we knew, all restaurants would be shut down and there would be nothing to sell. For Wendy's and Pizza Hut, it turned out to be just the opposite: they were the beneficiaries of the pandemic. It's quite fascinating when you look back at it all. ■

IN THIS ARTICLE

Dean Zuccarello

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MIKE CRADDICK - MULTI-UNIT OWNER

"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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5 WAYS TO DIVERSIFY

Add new brands for financial security

Written by **HELEN BOND**

After nearly 25 years as a Two Men and a Truck franchisee, Jamie Scott decided it was time to trade her single-brand status for the multi-brand life.

The Michigan-based franchisee, who recently signed a multi-unit development deal with LunchboxWax, is no stranger to operating through uncertainty, but Covid-19's economic fallout was different.

"The pandemic really opened my eyes. I realized I had all my eggs in one basket," says Scott, who has four Two Men and Truck locations within two franchise territories. "The moving industry has always been somewhat recession-proof, and we've been able to survive many different things, starting with 9/11, and then the crisis in '07 and '08—and now this. It's a good, steady business. But I just felt I needed more financial security after the panic of the first few weeks of the pandemic."

Scott has loads of company in her move to mix things up as part of a sound investment strategy. As we continue to move toward a post-pandemic reality, operators large and small are rethinking their growth strategies with a diversification mindset. The multi-concept franchise portfolio of the future is all about minimizing risk and maximizing opportunity. Here are five ways to do it.

1) EXPAND WITH A RESILIENT BRAND

For better or worse, Covid-19 has raised the stakes and the focus on franchise performance. A brand's current financial snapshot will vary, of course, based on industry and sector—soaring home services versus hard-hit fine dining, for instance—but it also provides invaluable insights for prospects seeking a transparent value proposition.

Andy Johnson, owner of Mr. Rooter and Mr. Appliance franchises in Memphis, recently added Mr. Handyman to his portfolio of Neighborly companies, the world's largest home services franchisor with 28 brands and more than 4,500 franchises in 9 countries.

"We had our best year ever with Mr. Rooter and Mr. Appliance in 2020," says Johnson. "On one hand, you almost feel guilty saying that; on the other hand, you feel proud. Everything we do is essential. We keep sanitation going, food fresh, and ovens heated. We help better people's lives and have kept their lives going as normally as possible when everyone has had to stay at home."

While franchises such as cleaning, maintenance, restoration services, along with food brands offering drive-thru, carryout, and delivery have stepped up safety protocols and thrived, other companies rebounded with innovative strategies to keep customers coming back.

How nimbly a franchise adapted its business model with technology to create new revenue streams, delivery systems, and franchise-friendly supply lines to meet customers' needs reveals plenty about a brand's resiliency. Also, the way brand leadership communicated during the darkest times and backed up those promises with support and resources provides invaluable insight into whether—or not—theirs is a franchise network worth joining.

2) GROW WITHIN A FAMILIAR FRAMEWORK

There is no longer a cookie-cutter approach to multi-brand expansion. Whether your goal is to balance out a single concept facing an uncertain recovery or add an emerging brand to a lineup hampered by oversaturation, alternative holdings can provide economic stability and new avenues for growth.

Multi-brand franchisee Chris Klein, an authorized dealer of 40 Cricket Wireless locations, turned to franchising to diversify from the competitive wireless industry, opening the East Coast's first Kolache Factory in 2015.

Three years later, Klein and his wife Erin added Fit Body Boot Camp to the fold. The couple, who both have a background in sales, is set to

open their third boutique fitness gym site in July and are seeking a location for a second Kolache Factory, the fast-growing brand serving fresh-baked, high-quality "on-the-run" breakfast fare. While Klein didn't know much about the food industry, he believed in the system's strength and its founders.

"In my conversations with them, I got comfortable with the fact they were not only franchising, but had started the business from the ground up, lived it, and would understand and help a person new to the food business," says Klein, whose prime Virginia Beach site and drive-thru has served the location well throughout the pandemic.

Choosing a franchisor and management team that has demonstrated hands-on leadership for franchisees has been critical to ensure a fast start to success, says Klein.

"We looked for businesses that provided the infrastructure for the member experience and what the customers are going to see," he says. "We have a separate company that runs all the back offices for these businesses to take the day-in and day-out stuff out of the hands of the store and gym managers. They are totally focused on the customer experience. We think that gives us sustainability and continued growth."

This centralized approach to back-office systems also provides both economies of scale and an economic snapshot of their portfolio to create operational efficiencies and drive growth by adding value. One example: "We are selling more merchandise with Fit Body using an ordering practice that comes from Kolache Factory," says Klein.

3) SEEK SYNERGIES

Synergies can be found in all sorts of ways—shared real estate, target markets, referrals, and marketing support. Expanding with complementary brands is one way to benefit customers and boost the bottom line through cross-promotion. Johnson's path to expansion came in part because he didn't like missing out on clear-cut opportunities to serve his existing customers in additional ways.

"We want to own the home," says Johnson, a second-generation Mr. Rooter franchise owner. "Basically, if anything in your house breaks, I want to be able to fix it."

Adding brands instead of more territory with a single franchise also has allowed Johnson, a father of four young children, to grow the business in a single market and still be close to home.

"As you add another concept, there are going to be more challenges, but it also gives you more resources to divvy up marketing costs, office expenses, and salaries in the offices," he says. "It allows you to do more things because you have a broader revenue generator."

4) FIND A NEED AND FILL IT

Franchisees facing a maxed-out market or other roadblocks to expansion often find paths to growth with an emerging concept or an existing brand that fills a need in an untapped market.

Long-time Little Caesars multi-unit franchisee Robert Zarbock, owner of three restaurants in Montana, always has his eyes on alternative investment opportunities. He recently found one with Edible Arrangements.

"I knew that I wanted to franchise with Edible when I was trying to order a gift for my wife and there was nothing in the area," says Zarbock, who has two Edible stores in development and plans for up to 10 more throughout Montana.

The decision to join the fast-growing brand of fresh fruit arrangements and all-natural fruit snacks and dipped treats was the perfect operational fit—and "right up my alley as a health-conscious concept," says Zarbock, who is on the hunt for an additional concept to open in the Billings market.

Klein became familiar with Kolache Factory from his days in broadcast sales in Houston, where he regularly brought the brand's fresh-baked treats to customers. The Kleins, parents to four boys, discovered Fit Body Boot Camp when visiting friends in Atlanta. After experiencing the brand's group training class two days in a row, Erin says she started the paperwork process on the 12-hour ride home.

Both the Kolache Factory and Fit Body Boot Camp were unique and missing from the Hampton Roads area market. "You also have to be super passionate about it," she adds.

The fallout from the pandemic has also opened doors of franchise opportunity in other ways. "Right now is a great time to find real estate vacancies for a new salon. Landlords are more willing to negotiate," says Scott. "I'm also hoping to take advantage of the labor market as I'm headed into the health and beauty industry where there has been job loss from the pandemic."

With her Two Men and a Truck operations humming, Scott was ready for a new venture that would provide professional growth and meet her lifestyle and financial needs. She didn't even have a chance to start researching brands when a fellow Two Men and a Truck franchisee told her about LunchboxWax, a fast-growing salon brand that offers a full range of hair removal services.

Drawn to the profit margins and the "somewhat recession-proof products and services," Scott purchased the rights to five salons to be located primarily in suburban Detroit. She is currently developing a LunchboxWax in Troy, Michigan, and scouting a second site for Ann Arbor.

5) FIND A BRAND WITH SUCCESSFUL FRANCHISEES

Franchisor support and a vibrant network of franchisees have never been more critical in franchising. Klein attended two Kolache Factory franchisee meetings before he signed with the brand. He was encouraged to speak with other franchisees, which allowed him to learn about "the real things that go on in their business."

Johnson says you can't put a price tag on the resources available within his franchise network. "If you want to be successful, go hang out with successful people," he says. "I found the best of the best and drove to their office and asked them questions. I said, 'I'm not good in this area. How do I fix this?' Some of those are hard conversations."

No matter how you choose to diversify, internal support is also paramount to multi-brand success. It is vital to surround yourself with the right people. "I learned some hard lessons in that I can't do everything," Johnson says. "I had to learn to trust, I had to learn to delegate and teach people and empower people to do their job. If you don't, you are going to run yourself ragged."

While challenges remain, access to labor, low interest rates, favorable real estate, and attractive incentives are expected to lead to a boon in franchise development. Seasoned pros say managing well-positioned multiple brands can provide an even bigger payoff—if you're prepared to roll up your sleeves.

"What you put into it is what you get out of it," says Zarbock. "This is key when people are looking to diversify because they have to be ready to put in the work early to set themselves up for success in the future. You never know until you try it. Without risk, there is no reward." ■

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CAPITAL PAINS & CAPITAL GAINS

7 multi-unit operators share their thoughts

Written by **SARA WYKES**

Whether you're in food, services, or any other franchise segment, you've been affected by the Covid pandemic. Some brands have pivoted successfully, some are still finding their way, and some are gone. Franchisees have flocked to federal, state, and local loan and grant programs to get through the worst of it. As entrepreneurs and survivors, many have leveraged longstanding relationships with their financial partners, while others have been forced to find innovative relationships with new or additional lenders, private investors, and others that have proven to be lifesavers—and for the more fortunate, sources for expansion and acquisition.

We asked seven multi-unit franchisees about their financing struggles and victories during Covid, and how well their franchisor supported them during this challenging time. Their real-world insights and experiences may provide lifesaving lessons for you as well.

Shehzaan Chunara is vice president of development for the Chunara Group of Companies. He oversees the expansion of the family's partnership with Dunkin' Brands, Checkers, Popeyes, Church's, Take 5 Oil, My Eye Lab, and most recently Kale Me Crazy. He also oversees the expansion of the family's real estate holding company and the family's diverse portfolio of private equity investments.

Our most pressing financial needs have been for new projects. In this uncertain environment caused by Covid, that's an area where banks have been hesitant to lend. Banks are never sure when regulations might be released requiring the closure of businesses and that has heighted the risk for lenders. Additionally, many banks are starting to have lending limits to diversify their risk portfolio, so many aren't as willing to extend lines of credit as they had been up until the start of the pandemic.

Traditionally, we had done our banking with two to three banks, whether it was new projects or remodels. With the pandemic and a very busy 2020 in which we made several aggressive expansion moves, we added several new banks to our portfolio of lenders. Many of these lenders are community-based and hungry for fairly large businesses with good credit. It has been a perfect match. Before the pandemic, we may not have even considered these lenders because their cost of capital is a little higher than what we are used to, but meeting with these new banks has allowed us to funnel certain deals to certain lenders.

For example, some of the more difficult deals that may be new pro forma–based projects with no past financials and no real estate involved may go to some banks that don't mind taking a little more risk to earn our business. Even then, we have had to inject significantly more than the 20 percent we are used to on many of our projects, or have had to provide banks with clean and free real estate as collateral to get deals done.

Finally, there are certain deals presented by the Covid business environment that simply require us to close in cash, and then look for refinancing afterward. Between the creativity of holding some of our real estate as collateral, injecting more, and shuffling through new banking partners so that we have several lenders to choose from at any given time, we have found ways to push through what can be a challenging financing environment.

Saagar Grover was most recently CFO and operations director for Twisters Burgers and Burritos, a 20-location fast casual chain based in Albuquerque with additional locations in Denver. He is an active CPA who spent 3 years with Ernst & Young and a year in commodities trading before getting into the restaurant business. He transitioned out of his Twisters role in November 2020 and now works on new projects in the virtual brand space. He also serves on the advisory board for the University of Houston and the Bauer College of Business Customer Experience Certificate Program, and is an advisor for the Asian Business Collaborative.

It was relatively simple getting a PPP loan and securing what we needed that way, but we just didn't know where the floor was. We were 10, 20, and 30 percent down week after week. The whole country was challenged. We were fortunate in that we owned the real estate in half our stores and our mortgages were less than rent. We had to adjust quite a bit. Our workforce contracted, but those who remained worked more hours, even though we focused more on takeout and shortened our overall open hours.

Be prepared—develop a close relationship with your bank. In the pandemic, people have recognized the value of their community. Before, people were looking outward. They always had their eyes on something else. This last year has focused us more inward, and we saw a lot of support from our community. We partnered with the Chamber of Commerce because we wanted to do something to support front-line workers, and soon there were other chamber members sponsoring meals from us for front-line workers. We did

it at a discount and expanded it so anyone could donate to the program. It was great—we opened it up to the community to support the community through our restaurants, and that supported our restaurant employees, too. That, to us, was big.

Jeff Klein bought his first Capriotti's Sandwich Shop in 2008 and within a decade had acquired 13 units in two states. His franchise holdings in Nevada and California also include The Gents Place, Auntie Anne's Pretzels, and Baskin-Robbins.

My pressing issue is always finding capital to grow. It's always a challenge, but it's something I've been very good at, whether with a bank or a private lender or a partner. I came up with a family business in Ohio and learned it's all relationship-based. My wife and I moved to Las Vegas in 2000 and she started her medical practice. We went to the Bank of Nevada to a loan officer who financed 90 percent of the doctors in this town. "You'll need a lot of credit," she said.

It has gotten tougher over years. During Covid, I've also successfully gone to the SBA and to the disaster loan program. That will allow me to build a couple more stores.

Our business is in the right sector. The catering business fell off a cliff, but I have two stores up more than 40 percent with foot traffic and third-party delivery systems. We have taken all the seats out of the 14 locations, which has allowed me to operate with fewer employees. At the end of April 2020 we decided to put out a heavy advertising campaign in a TV ad that was more than half our annual ad budget.

Josh Fogarty owns three Tijuana Flats in Florida, with one more in construction. He recently expanded his portfolio to include a Jeremiah's Italian Ice location.

We have found capital with our existing private investors who are familiar with our business. That familiarity was imperative to expedite the process. It's not something you can do with a cold handshake or introduction. We have a five-store development plan over the next 5 years and we feel we'll meet our deadlines. We've been able to find great locations because of Covid—there are deals out there. And most of our landlords have been very open to working with us as partners, understanding that something is better than nothing.

Lenny Siers is a U.S. Air Force veteran and multi-unit franchisee of Benjamin Franklin Plumbing, One Hour Heating & Air Conditioning, and Mister Sparky. After serving active duty for 8 years, Siers opened his own HVAC contracting company and decided to convert his business into a One Hour Heating & Air Conditioning franchise. He later opened a Benjamin Franklin Plumbing and Mister Sparky. Siers now manages more than 140 trucks and 180 employees for Benjamin Franklin Plumbing alone.

While my businesses, Benjamin Franklin Plumbing, One Hour Heating & Air Conditioning, and Mister Sparky were deemed essential during the pandemic and able to continue servicing the homes of our customers, we did experience a few challenges. The pandemic reduced employee availability, along with consumer confidence for home services at the start of Covid-19.

Luckily, we were provided great support during this time. We received assistance from the PPP loan program, and through the amazing relationships we have with our local banks and CPA team our financial needs were handled promptly and professionally. We were also thankful to have support from our franchise system. Authority Brands kept us informed on all the necessary steps to follow to address our Covid-19 related challenges and we felt stronger facing these times together.

As customers started to take notice of our enhanced safety protocols and dedication to safe service for both our technicians and customers, business started to stabilize, and by June we were operating close to normal conditions.

Eyal Reich is a franchisee of four Wetzel's Pretzels, one at Fort Hood Military Base in Killeen, Texas, one at the Cross Border Xpress (CBX) airport terminal on the U.S.-Mexican border, and two in San Diego's Belmont Park beachfront amusement park.

Most of my locations were in areas that experienced a big impact from the pandemic. One of my Wetzel's Pretzels locations is in an airport at the U.S. border. The border shut down at the height of the pandemic and is still not fully open. We've lost about 50 percent of our customers from 2019 to 2020. Most landlords weren't willing to offer discounts. Some were allowing deferral for rent, but there were no discounts. Luckily, we were able to secure PPP loans, which gave us some wiggle room to pay the landlords and our employees. The rest, unfortunately, we had to pay out of pocket.

We secured a Covid-19 Economic Injury Disaster Loan (EIDL) through the SBA as well. Because it's a 30-year loan with a 3.75 percent interest rate, it has been very helpful to our team. Normally, business loan interest sits around 6 to 10 percent, so the lower rate is a huge support. It's what's keeping us afloat. Our team is hopeful that with the vaccine rolling out, things will go back to normal. It's hard to know for sure, but we're hopeful.

Thankfully, our franchisor was very helpful throughout this time. We had weekly Zoom calls about all of the loan offerings and where to get them. From the CEO to the vice president of operations, it was clear that all hands were on deck. The support has helped all the franchisees. I believe that more than 90 percent of franchisees were able to secure a PPP loan.

Ron Reger is a franchisee of one Wetzel's Pretzels location with four more in development in Southern California. He also owns three Circle K franchises.

Even as an essential business, we've been hit by the effects of the pandemic, as we all have. At the start of 2020, before the pandemic, we began the process of refinancing a lot of our properties. Low interest rates meant underwriters were struggling to keep up with the demand, which caused many delays. The pandemic forced the process to move online, which translated into less efficiency. Whether someone is a buyer or seller, it's taking a long time.

Underwriters are also digging a lot deeper into finances. Before the pandemic, they were concerned about cash flow. The pandemic has caused them to take an even deeper dive, and they are comprehensively reviewing business revenue and previous years' revenues as well. The extended process has produced a slowdown even in the simplest aspects of financing.

I've been blown away by the support from the Wetzel's Pretzels corporate team. They continue to hold Zoom calls on lease negotiations and PPP loans. If they aren't expert, they bring in third-party companies to provide more information. We launched our first Wetzel's location in June. They were still supportive and arrived that first week to get us set up and help out. We're planning to open four more Wetzel's locations before the end of the year. ■

READING THE FDD

The argument against simplification

Written by **ROCHELLE SPANDORF**

In this first of a special 2-part series, a veteran franchise attorney looks at franchisee complaints that FDDs are too complicated to be understandable. Part 2, in the next issue of this magazine, offers 10 tips on how to read an FDD critically.

No smart franchisor wants to sign up a new franchisee who has not read the franchise disclosure document (FDD). The FDD (franchising's equivalent to a public company's Form 10-K) is a government-mandated pre-sale disclosure document that franchisors must deliver to a prospective franchisee at least 14 days before the franchisee signs any binding agreement or pays any money to the franchisor, even a refundable deposit.

The FDD must contain the franchisor's answers to 23 distinct categories (Items) of questions about the franchisor, the franchisor's management, and the franchise program, as well as the franchisor's audited financial statements and a complete copy of all contracts that a franchisee must sign.

Answering questions with brevity is not necessarily the best practice for franchisors. Most franchisors write their FDDs defensively to protect themselves against future claims by franchisees over business losses that they allege are due to FDD misstatements or omissions.

A prospect who is told by a franchisor or business broker that FDD delivery is a mere formality because everything they need to know about the franchise program can be found on the franchisor's website or learned during a discovery day visit—should reject that franchise program and find a reputable one. There are a few thousand active franchise concepts in the U.S. across all industry sectors, including some run by Fortune 500 companies. Smart franchisors want franchise buyers to understand the deal they are getting into before signing a long-term contract allowing use of the franchisor's most valuable asset, the franchise brand.

THE FRANCHISEE'S LAMENT

A September 2019 *New York Law Journal* article written by a highly regarded franchisee attorney and friend of mine describes franchising from the perspective of representing franchisee owners who have failed in business. These are franchisees who seek legal help to extricate themselves from an unsuccessful franchise investment after a few years of operation; they are losing money and, notwithstanding their contractual commitment to operate for a longer period, continuing in business makes no financial sense.

The classic franchise agreement, the article critiques, lacks an "out clause" allowing a franchisee to terminate the arrangement absent proof of the franchisor's material breach, an observation that is unremarkable if only because it is entirely consistent with basic contract law. It also claims that franchise agreements give the franchisor too much control over basic aspects of the franchisee's business, allowing the franchisor to dictate uniform standards for trade dress, operating protocols, authorized goods and services, hours of operation, and suppliers.

However, the fact a franchisor dictates these things is explainable by well-settled trademark law: a franchisor—as brand owner—must establish rules for all franchisees to follow to ensure that the licensed brand stands for the same thing in the minds of consumers who engage in transactions across branded outlets owned by different franchisees.

Omitted from the article is any mention of whether the franchisees who seek to escape from a franchise deal gone bad—a painful outcome that no one may trivialize—bothered to read the FDD or franchise contracts before signing them. Nor does the article mention if the franchisees engaged legal counsel to help them evaluate the franchise opportunity or conducted due diligence to validate the franchise program (e.g., interviewing existing franchisees) before leaping in.

Franchise agreements are, by necessity, *incomplete contracts:* they require mutual performance over a relatively long term, on average 10 years. As a result, they expressly vest franchisors with discretion to adjust the franchise program to keep the brand relevant as consumer preferences, technology, and competition inevitably change over the contract's long term. This is not to say that all franchisors use their contract power benevolently or fairly; some do not. But, the fact that the franchise contract gives the franchisor control in the first place to dictate operating requirements and lacks an "out clause" for franchisees are risks that can readily be identified before buying a franchise by carefully reading the FDD, engaging counsel to read it, and interviewing existing and former franchisees whose contact information is in the FDD.

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*This amount reflects the average annual Gross Revenues for the 78 out of 101 franchised Bonchon Restaurants in the system that were in operation from January 1, 2019 through December 31, 2019 (each a "Mature Restaurant"), as published in Item 19 of our March 18, 2020 Franchise Disclosure Document (as amended on May 18, 2020 and July 6, 2020). Of these 78 Mature Restaurants, 33 (42.3%) met or exceeded the 2019 yearly average Gross Revenues during the reported period, with the highest Gross Revenues earned being $3,180,142.79 and the lowest Gross Revenues earned being $339,027.55. The financial performance representation contained in Item 19 of our March 18, 2020 Franchise Disclosure Document (as amended on May 18, 2020 and July 6, 2020) also includes: (i) the median annual Gross Revenues for our Mature Restaurants and (2) the Gross Revenues for 2 of our 3 company-owned Bonchon Restaurants, in operation in the United States during the referenced period. A new franchisee's results may differ from the represented performance. There is no assurance that you will do as well and you acknowledge that you accept that risk.**Year-over-year growth rate in systemwide sales for the year ended December 31, 2020

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The Federal Trade Commission (FTC), which has administered a federal franchise sales law (the Franchise Rule) since 1979, requires franchisors to disclose on the very first page of the FDD in no-nonsense terms three basic warnings: *1) "Buying a franchise is a complex investment"; 2) "Read all of your contract carefully";* and *3) "Show your contract and this disclosure document to an advisor, like a lawyer or an accountant."*

Yet, despite these clear admonitions, research shows that most franchisees buying their first franchise neither read the FDD nor consult with a qualified franchise attorney before signing a franchise agreement. Instead, researchers say that most franchisees base their buying decision on "relatively shallow" less informative sources, such as statements in franchise advertisements, newspaper articles, or franchise prices.

It is textbook law that a party cannot evade the consequences of a contract that the party signed without reading. While people are free to sign legal documents without reading them, the documents are still binding. This truism applies to all contracts, not just franchise contracts. The principle is rooted in the *"sanctity of contracts,"* a doctrine that recognizes that contract-making benefits the general public and depends on parties being able to rely on their contracts being enforced as written. Courts advance this public policy by limiting their role to enforcing contracts and rarely creating, dissolving, or changing contracts.

If a majority of franchisees sign franchise agreements without reading them, it is fair to say that, despite their efforts, franchise regulators and franchisee advocates have done a poor job in educating franchisees about the blunt consequences of blindly signing franchise contracts. When unsuccessful franchisees seek legal help for rescue from a deal gone bad, they learn the sobering lesson that the law strictly limits the circumstances in which a court will unwind a contract. If only these franchisees had sought the advice of experienced franchise counsel before buying the franchise.

THE FDD READABILITY PROBLEM

The FTC recently invited the public to comment on several proposed adjustments to the 41-year-old Franchise Rule. One proposal advanced by franchisee advocates would upend the longstanding pre-sale disclosure process. Proponents maintain that the FDD has grown so complicated and voluminous that it is *"intimidating"* to the average prospective franchisee, so much so that the FTC should no longer expect franchisees to read the FDD before buying a franchise. They urge the FTC to fix the "readability" problem by requiring franchisors to prepare and deliver a summary FDD containing just specific highlights, something short and straightforward enough that franchisees will read. Proponents of changing the pre-sale disclosure process also assert that prospective franchisees cannot afford *and should not be expected* to hire an attorney to digest the "big" FDD for them.

Franchising *is* a complex investment. It is the wrong business opportunity for someone unwilling to invest the time and resources to read the contracts or have them explained before signing them. I say this having written and reviewed hundreds of FDDs during my 40-year career as a franchise attorney representing mostly startup franchisors—but also having helped scores of prospective franchisees analyze the FDD and contracts to ensure that they appreciate what is expected of them, what they can expect from the franchisor, and to identify atypical contract provisions and red flags that could spell trouble ahead.

While I appreciate that parsing through long contracts written in legalese (the universal language of all contracts) is challenging for non-lawyers, it is difficult to understand why franchise buyers are apparently unwilling to invest in legal counsel. If franchise buyers find the "big" FDD and its many exhibits so confounding, why would they invest what often is their life savings in a binding agreement without hiring legal counsel to advise them about what they are getting into?

Furthermore, it is difficult to accept the affordability excuse for not hiring legal counsel. Compared to the amount of money that franchisees will invest to buy and start up a franchise business, the cost to hire an experienced franchise attorney to wade through the FDD and contracts is nominal. Once the franchisee signs on the dotted line, they will face far greater expenses opening and operating the franchise business—just to break even—than the up-front investment in good legal representation. Hiring an experienced franchise counsel before buying a franchise is the ounce of prevention hailed by Benjamin Franklin.

DEBUNKING THE READABILITY PROBLEM

There are numerous articles written by franchise consultants offering different perspectives for how a franchise buyer should critically read the FDD or find the right franchise. Some of these articles are extraordinarily basic, written so simplistically that they leave the impression that selecting a franchise and digesting the legal documents are tasks that are easy to do. Add to this the fundamental attraction of franchising—being one's own boss in control of one's own destiny —and the sheer number of franchised businesses represented in the U.S. economy, and it may seem to a first-time franchise buyer that anyone can find financial success by investing in a franchise. Buying a franchise is a complex investment, and performing appropriate due diligence and engaging legal counsel before signing a franchise contract will *not* eliminate the risk embedded in every business investment, franchise or not.

It is important to debunk the notion that FDDs today are so complicated that franchisees may rightfully not read them. Anyone who buys a franchise will have to sign other contracts to get their franchised business open—leases, bank loans, supplier agreements, and more—for which the law does not provide a plain language, pre-signing disclosure like the FDD.

While the FDD's plain-English disclosures cannot change the relational dynamics or level the playing field between franchise parties as a whole, the FDD does a good job of comprehensively explaining the parties' mutual rights and duties in what may fairly be described as a lopsided power arrangement. Franchisees lose sight of the forest for the trees by blaming the FDD's girth as a reason for signing franchise contracts without reading them. Proper due diligence of a complex investment is *not* something that can or should be abbreviated, condensed, or hastened.

Part 2, "Ten Tips for Reading an FDD," will appear in the next issue. ■

Rochelle Spandorf is a partner with Davis Wright Tremaine and chairs the firm's franchise practice. She is a nationally recognized business franchise and distribution attorney representing franchisors, manufacturers, licensors, suppliers, franchisees, and distributors in their domestic and international expansion and strategic development. She has the distinction of being the first woman to chair the ABA Forum on Franchising, the nation's preeminent association of franchise attorneys, and is recognized by her peers as a Global Elite Thought Leader in franchise law. Contact her at rochellespandorf@dwt.com or 213-633-6898.

Create Emotional Connections

Invest in your customer experience now!

Written By
JOHN DIJULIUS

When is the best time to invest in your customer experience? 18 months ago! When is the second-best time? NOW! Now is the time to make your organization's customer experience your single biggest competitive advantage. To be the brand customers can't live without, you must focus on creating an emotional connection on every interaction with your customers. Here are six ways to do that.

1. **Focus on the micro moments.** Too many companies and employees think if the results/outcomes are achieved customers will be happy. However, outcomes have the least to do with customer loyalty. The order was accurate, my meal was prepared perfectly, my tooth no longer hurts. Those all had better happen. But by themselves, results/outcomes are a commodity. Customer loyalty is a result of consistently delivering on the micro moments at each touchpoint, whether a customer calls, emails, checks in, or needs support. Were your employees knowledgeable, empathetic, patient, passionate about their job, easy to do business with, and willing to make it right?
2. **Address the relationship deficit.** Technology has made it easier for us to navigate through our busy lives, but it also erodes the fundamental element of human connection. Communicating digitally often can lack a human touch, which creates a sterile transaction and lack of emotional connection. Forced into a virtual world is adding to these unintended consequences, which we call a relationship deficit. As we've been forced to practice social distancing, people have realized how much they crave human connection. Not being able to dine with friends, see family members, or interact with co-workers has put a strain on the human spirit. Businesses that create emotional connections will dominate.
3. **Avoid empathy fatigue.** Empathy fatigue usually occurs in industries that constantly deal with customers who have high emotional pain (e.g., funeral homes, therapy, oncology). However, in today's world, every business is dealing with customers who have high stress and anxiety. This can cause employees to feel emotionally and physically drained, which leads to a diminished ability to empathize or feel compassion for others. As leaders we must constantly help our employees reenergize, rejuvenate, feel appreciated, and understand the critical role they play in their customers' lives. Customers will feel better and employees will be less likely to burn out.
4. **Make your customers feel something.** The #1 best customer service we can provide is being a positive escape with every person we come in contact with. You have to create an emotional connection that's so engaging and compelling that the customer literally "feels" something afterward.

   In her blog, *"Why Is Starbucks So Successful Despite Its Mediocre Coffee?,"* Liraz Margalit wrote: "What drives today's customers are emotions and feelings, some of which can't be expressed in words and are triggered unconsciously. The most important element in customers choosing who they buy from is how a brand makes them feel. Companies like Apple don't sell a product, they sell a brand that embodies a delicate mix of dreams and aspirations."

   So how do you create such an experience and train your employees to provide it? Examine every touchpoint in the customer journey to see if you have built in the feeling of "cared for" in the journey.
5. **Find the conversation gifts.** There is a gift in every conversation. If you look for it, you will find it. By now most of you are familiar with FORD (Family, Occupation, Recreation, and Dreams). If not, find out more on my website. Now more than ever, focusing on FORD during conversations, especially virtually, is critical—and it is easy. This helps you find the conversation gift, both professionally and personally.

   Many of the clients we work with have customized their CRM system to add FORD fields, something to check before or during an interaction with a customer and update afterward. FORD not only helps collect key customer intelligence during calls, it is also a great tool to prep for a call. Typically, I will fill out what I already know from what I may remember, what we have in our CRM system, the city they live in, any FORD already documented, and their past purchase history. It also reminds me to do some recon on LinkedIn for mutual connections and where they may have graduated from.

   Videoconferencing calls are so much better than the old traditional conference call. Recently I was on a Zoom call with someone I had never spoken with before. There was so much FORD info in plain view behind him: his diploma, a photo of his wife and kids, and his favorite sports team. This type of info allows for the conversation gift follow-up.
6. **Use relationship hacks.** Many small investments in relationships are key to building that emotional connection. I learned a great relationship hack from Adrienne Bankert's new book, *Your Hidden Superpower.* She talks about taking a few minutes to videotext people instead of just texting them, and the power of it. So I tried it. To my amazement it was fast, easy, and the responses I got were incredible. I have always texted my employees on their company anniversary dates to thank them. Now instead I send a videotext, which actually takes less time than typing and has a significantly bigger impact. I am trying to force myself to think before I text anyone: Would this be more powerful as a video message?

You absolutely can become the brand customers can't live without by training your employees to create an emotional connection every time they interact with your customers. ■

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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* This information reflects the Average Gross Sales and Average Cash Flow for the Top 25% of the Buddy's company-owned retail businesses which were open for at least five full year as of fiscal year end 2020. Of these 8 retail businesses, 1 attained or surpassed the Average Gross Sales and 3 attained or surpassed the Average Cash Flow as described above. We refer you to Item 19 of our 2021 Franchise Disclosure Document for additional information. A NEW FRANCHISEE'S RESULTS MAY DIFFER FROM THE REPRESENTED PERFORMANCE. This is not intended as an offer to sell, or the solicitation of an offer to buy, a franchise. Offerings made by prospectus only and in compliance with the applicable pre-sale registration and disclosure requirements in your state.

Candidate Engagement

Hiring tips for a post-Covid economy

Written By
KRISTINA GANSSER

Raise your hand if you're tired of Covid. *(750,000+ franchisee owners raise their hands.)*

I'm tired of Covid-19. I'm sure you're tired of it too. As if facing a pandemic, with the constant threat of illness and the denial of our favorite coping mechanisms weren't enough, many have paid the hefty price tag for the ripple effect of pandemic life on the business front.

Well good news! This article is not about the thing-that-shall-not-be-named. It's about a pain point many of you are dealing with because of...*that thing*... and will continue to deal with when…*that thing*... is over. This is a thing I shall name, and it's called Candidate Engagement.

We're currently experiencing an extremely tight labor market and there are no signs of it letting up. It's expected that as workers return to the workforce the need for them will simultaneously increase as there is a pent-up demand for simply going out and being with other people. So right now it's more important than ever to ensure you're doing everything you can to engage candidates and make fast hires—or at least have a plan and be prepared when the time comes for your industry, brand, and geography to hire again.

REVISIT YOUR JOB APPLICATION

Did you know that more than half (55%) of hourly job seekers will pass on an opportunity because of a poor application experience? Or that more than 60% get their first impression of your company from the application and interview experience? Having a short application that is easy to complete in one session not only affects your application flow, but your brand impression as well. So be sure you're requiring only what is absolutely necessary to get the applicant in for an interview. In a recent analysis of more than 1 million applications started, more than 300,000 applicants dropped off before completing the application—and 20% of those occurred when the applicant was asked for previous work experience or a resume. Remove friction points like these, particularly for entry-level positions, and watch your flow of applications soar.

REVIEW APPLICATIONS QUICKLY

In a tight labor market, responding to applications quickly is imperative to filling positions. Seekers are applying for multiple positions in a single session and candidates—especially the better ones—are snatched up quickly. Ideally, review applications twice a day; even if one time is just a quick scan to respond to the applicants who catch your eye. Or, better yet, leverage your applicant tracking system (ATS) to do the work for you. You create qualification questions based on your needs, and immediately invite applicants to an interview. Make your ATS do the work for you and watch how much time you get back in your day.

SPEAKING OF YOUR ATS…

The franchise community has unique needs, as do the workers who support it. So why would you have a one-size-fits-all solution for one of your biggest pain points: candidate engagement? Ensure that your ATS supports the franchise model, your industry, and the job seekers you're targeting. Since most franchises employ a high percentage of hourly workers, be sure you are leveraging an hourly ATS solution to best engage candidates. More than 75% of hourly job seekers use their phone to search for and apply for a job, so it's imperative that your ATS isn't just mobile friendly—it's imperative for it to be built "mobile first."

Engaging candidates in a tight labor market is hard. But with these tips you'll increase you application flow and get your business staffed up in no time—and with the better candidates! ■

Kristina Gansser is general manager at Snagajob. For more information, visit their website.

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Where Is the Cash?

If I made that much, where is it?

Written By
BARBARA NUSS

Soon you will receive your 2020 tax return from your accountant and happily put the final piece of the challenging 2020 financial puzzle in place. The conversation might go like this:

"Congratulations! You've made a profit. And by the way, that means your tax deposit is due on the 15th." Stunned because your bank account says otherwise, you reply, "Well that's a surprise. If I made that much money, where is it?"

Why doesn't net profit correlate to an increase in your cash balance? Because profit and cash are not the same thing.

The accrual basis of accounting provides the most accurate picture of profitability, so most businesses use it to produce their financial statements. Still, "Where is the cash?" can be a mystery for many statement readers. Why? Because while the accrual basis income statement measures profit accurately, it does *not* provide a clear picture of cash flow.

So where did the cash go? The balance sheet holds the clues, but it only shows a snapshot of what is left at the end of the period—without detailing the movement of cash through the period under review. The *statement of cash flow* unlocks the clues by measuring cash in and/or cash out through these functional areas of the business:

1. Operating (revenue, expenses, resale inventory, accounts receivable, accounts payable, and short-term financing like credit lines or credit cards)
2. Investing (purchases or sales of inventory, facility expansion, or other long-term investment)
3. Financing (new borrowing and repaying existing debt)

This statement is on our list of "must haves" because it clearly identifies the differences between profit and cash for any business and shows the impact all business activities have on cash. Yet, monthly or even annual reviews of the statement of cash flow are rare, because it can be challenging to understand until you have some practice with it. The chart details how the statement of cash flow answers the question, "Where is the cash?"

The income statement shows all revenues, expenses, and the "bottom line" difference between the two, i.e., your net profit. Many things other than expenses consume cash, and businesses receive money for things other than revenue. The chart outlines the many things on the balance sheet that have an impact on cash. Those familiar with the statement of cash flow will recognize these categories. The statement shows the beginning balance of cash and then details the amount provided by or consumed by operating, investing, and financing activities of the business, to arrive at the ending balance of cash. This is how the statement answers the question, "Where is the cash?"

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	CASH IN	CASH OUT	
	Net Profit	Net Loss	INCOME STATEMENT
OPERATING	**DECREASES IN** • Resale inventory (liquidate) • Accounts receivable (collect) • Other current assets (liquidate)	**INCREASES IN** • Resale inventory (purchase) • Accounts receivable (advance) • Other current assets (deposit/pay)	BALANCE SHEET
	INCREASES IN • Accounts payable (borrow) • Credit lines/credit cards (borrow) • Other current liabilities (borrow)	**DECREASES IN** • Accounts payable (pay back) • Credit lines/credit cards (pay back) • Other current liabilities (pay back)	
INVESTING	**DECREASES IN** • Accumulated depreciation (add back non-cash expense) • Fixed assets (disposals) • Other assets (collect or liquidate)	**INCREASES IN** • Fixed assets (buy/acquire) • Other assets (buy/acquire)	
FINANCING	**INCREASES IN** • Owner loans (borrowing) • Long-term debt (borrow) • Equity (contributions)	**DECREASES IN** • Owner loans (repayments) • Long-term debt (payments) • Equity (distributions)	

WHY DO THIS?
How do you avoid similar surprises in the future? By creating a *monthly cash budget* to accompany your income statement budget.

A monthly cash budget is constructed by estimating forecasts (assumptions) for the items outlined in the statement of cash flow. For most companies, it is essential to predict inventory purchases, credit and collection patterns, equipment purchases, expansion investments, borrowing, debt repayments and distributions to owners (particularly important for LLCs and S corporations that pay owners amounts that don't appear on a W-2). These items are typically not on the income statement budget, but they will consume your future cash flow.

With budgets for both profit and cash, you are armed with two powerful tools for planning and control that no business should be without.

Our new Budget Playbook details a process for building a cash budget, and for using your budgets to negotiate and plan for financing your business. This is just as important for businesses that are experiencing a sales tsunami as it is for those experiencing losses from a challenging market. The Playbook is free to download at our website.

To make a realistic forecast, get help from a professional. Even if you are an accountant yourself, another perspective is helpful, from both the technical side of how your cash flow spreadsheet is set up, and from the common-sense side, providing a reality check for your assumptions.

SUMMARY
These disciplines can help you understand and predict your cash flow needs, assuring that you will have the funds available when you need them.

1. Review financial statements and cash flow ratios regularly, *including the statement of cash flow.*
2. Prepare a rolling 12-month income statement budget that accounts for seasonality to serve as your profit plan.
3. Prepare a rolling 12-month cash budget that accounts for all cash in and cash out to predict potential cash shortages and borrowing needs.
4. Use the cash budget and profit plan to negotiate for financing well in advance of the time you will need the funds.

The most successful business owners take advantage of every opportunity to manage better and improve their operations. If you are ready to raise the bar on your financial review routines, make the statement of cash flow and a cash budget a management standard. ■

Barbara Nuss 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.

AD INDEX

Lessons for 2021

Building sustainable long-term investment habits

Written By
CAROL M. SCHLEIF

"Unhinging reason temporarily can sometimes be the only rational response to an insane world." – Stewart Stafford

It seems almost blissfully quaint at this point: that naive hopefulness the globe entered 2021 with, full of hopes of leaving the trauma and drama of 2020 behind.

Yet by the end of the first month, the U.S. Capitol building had been stormed by an angry mob, former President Trump had been impeached for an historic second time, and an angry social media-inspired group of Main Street traders was wreaking havoc on Wall Street hedge fund titans, forcing liquidation of positions, if not firms.

It seems everywhere we looked the "new normal" was divorced from the reality we all thought we knew. In Alice in Wonderland fashion, it was as if being unhinged and unbalanced *was* the new normal, and that everything we had learned about what was "supposed" to happen, particularly in terms of stock markets, was irrelevant.

Early in the year, despite the political angst and ongoing Covid-19 counts and shutdowns, global markets continued to rally to new high territory. A variety of events in late January prompted a reevaluation, however, as the "Robinhood, Reddit, TikTok" saga relative to GameStop, AMC Entertainment, and other '90s favorites unfolded. Our sense is the GameStop turmoil is an iteration of the political angst exposed in recent years by the polarization between those who have benefited from the transition to the information age/globalization and those who have been left behind.

Then too, it is important to acknowledge the context of the statistically large demographic cohorts—Millennials and Gen Z—coming into their own from an employment, purchasing, and influence standpoint. Their primary frame of reference entails significant economic and educational insecurity and seems to have instilled a distrust of organized institutions of any sort, from Wall Street to Capitol Hill and Pennsylvania Avenue. This innate distrust can be easily fueled by social media forums that rapidly accelerate impassioned emotions.

Increasingly ubiquitous access to free trading coupled with stimulus checks and pandemic-inspired excess time to surf exacerbate the whole situation. Time will tell if buying stocks because they are going up (momentum trading), or because one wants to cause harm to someone else (squeeze the shorts) are viable long-term investment strategies. History does not view either strategy kindly for long-term portfolio health. Stepping back from the emotions cascading through the moment, some important insights and lessons can be gleaned for those intent upon building sustainable long-term financial and investment habits.

- The explosion in online trading apps, free trades, and social media–fueled investment advice has really been around only for the past decade or so—aka as the post-global financial crisis bull market (notwithstanding the historically brief drawdown in spring 2020). Investor, app, and underlying firms' behavior during an extended downturn like that of 2001–02 or during a decade-long flat market remain untested.
- It is imperative that account holders assess how their assets are held: in firm name or in individual name in a separate account. What and who backstops your investment when things get ugly is imperative to know. This would be important, for example, if a firm were to slip into bankruptcy. It never seems likely in a bull market, but the fast and furious trading in GameStop and other assets exposed vulnerabilities in business models when clearinghouses called for more collateral amid the heated trading.
- It's also important to do some research regarding the financial wherewithal, structure, board composition, and regulatory oversight of the firms that hold your assets. This is similar to ensuring that your insurer has sound financial backing to meet payout requirements in the event of a claim. How is the firm itself financed? What access to additional capital and credit lines do they have? What are their counterparty relationships?
- Investing (versus trading) and building financial wherewithal is typically not viewed as "easy" or "fun." Many of the trading apps have been "gamified" with emotionally addictive features such as showering confetti when trades are completed. We celebrate the desire to level the playing field for financial education and access, but worry about inadvertent consequences that work against long-term success. Investing is more typically uncomfortable, necessitating buying when others are selling, and divesting when the story seems "best." In the long run, valuations must be supported by fundamental progress, and disconnects can lead to disappointments. Long-term investing is not unlike long-term health or weight maintenance: no matter how long and hard humankind searches for the "magic bullet" to get rich quick or lose weight easily, there is no substitute for discipline and the hard daily decisions that compound over time to yield results. Then too, just because you can read about how to do an appendectomy or watch a YouTube video showing it doesn't mean you should do one yourself.
- Amid all the celebratory social media posts about profits, paper and realized, we've seen little talk of the taxes that will be owed. Many may be short-term in nature, taxed at ordinary income tax versus long-term capital gains rates.
- Information and wisdom are two different things. The SEC and other regulators have worked hard in recent decades to level the playing field of access to information. But having the wisdom to interpret and deploy that information consistently and over the long haul is another thing entirely.

BOTTOM LINE

Despite the angst-ridden and seemingly unhinged nature of near-term fundamentals, asset prices, and the economic progress that markets began on in 2021, we suspect long-term fundamentals will reward the investors who cleave to the basics of wise financial management. These basics include global portfolio diversification, dollar cost averaging in and out, written investment objectives, and long-term goals. ■

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Don't Do This!

8 common mistakes business sellers make

Written By
TERRY MONROE

All business owners think about selling their business at one time or another. However, for the ones who decide to go forward and sell, certain points must be addressed if they want to have a successful transaction and get the most money for their business. After selling more than 800 businesses, I decided to list eight common mistakes owners make when selling their business.

1. **Trying to sell it yourself.** Business owners usually are not objective about their business. Even if you have the financial skills, you'll have a tendency to overestimate the value. Selling a business is both an art and a science, best performed by individuals who do this full-time as their profession. Let a professional intermediary do what they do best. And you do what you do best—you are a successful business owner, an art in itself. You are not expected to have the financial skills to be objective in the valuation of your own business.

   There is a reason pro athletes and actors have agents—because they get more money and better terms when they hire someone to negotiate for them. Likewise, you simply won't get as much value for your business trying to sell it yourself and learning on the job. Attempting to sell your own business will devour your time. You know how to run your business, but this is no time to learn how to be an investment banker or business broker.

2. **You are too sensitive about your business.** You will take comments made by a buyer personally and perhaps kill the deal. Nobody likes to hear they have an ugly baby, and the same is true when you are selling your business. Any negative comments about your business to you will be taken personally, regardless of how hardened you may think you are. The solution is to get an intermediary to soften the blow and translate the buyer's comments into requests that will not be taken personally.

3. **You don't know how to arrive at fair market value.** Owners who are unrealistic about the value of their business are the biggest reason deals fall through. Get the facts and the reality of what businesses like yours are selling for in the current market—and regarding valuations, never take anything you read in the trade magazines as gospel.

4. **You don't know how to recognize a qualified buyer.** Different businesses require different kinds of buyers, and different buyers will pay different amounts for a business. You need to know which buyers are paying the most in today's market, because buyers change with the market.

5. **You probably don't know where to look for the right buyer.** Finding the right buyer for your business who will pay top dollar isn't as easy as running an ad in a trade magazine or newspaper and seeing who contacts you. As a seller you want to know who really has the money and whether they are serious. Are they cherry-pickers or making lowball offers? Do they try to claw back on an offer and use the old bait-and-switch technique? Remember, time is money, and buyers are generally working on your time and your money.

6. **You fail to realize that selling a business is a process, not an event.** Selling a business involves a structured process that takes time—generally between 6 and 12 months from conception to closing. It is a very detailed process that not all sellers are up to accomplishing without guidance from a trained professional who has performed this process many times before.

7. **You must assemble the right team to get the job done.** Just as in sports, if a seller doesn't have the right team in the game, they will either get defeated or hurt in some way. What is the right team? An attorney who has experience in business transactions and who understands the sale of a business to a buyer, and not to one's lifelong golfing buddy. An accountant who understands the tax system and is not afraid to give good tax advice, and who is looking out for your best interests knowing there is a possibility they will lose your account. And an experienced intermediary who has working knowledge of your industry.

8. **You aren't committed to selling. Selling a business is a lot of hard work.** People don't realize how much work it is to assemble all the data needed by a buyer to get a business sold. A lot of transactions will fall apart because the seller either is not committed to the process or does not have the mental stamina to continue. The solution is to get help with a seasoned intermediary who will coach from the beginning to the end and help you to reap the rewards for all of your many hard years of work. ■

Terry Monroe is president of American Business Brokers & Advisors (ABBA) and author of "Hidden Wealth: The Secret to Getting Top Dollar for Your Business" from ForbesBooks. He has owned and operated more than 40 different businesses and sold more than 800. He founded ABBA in 1999 and serves as an advisor to business buyers and sellers throughout the nation. He has been written about and featured in *The Wall Street Journal, Entrepreneur, CNN Money, USA Today, CEOWORLD,* and *Forbes*. Contact him at 800-805-9575 or terry@terrymonroe.com.

A Schlotzsky's Family

From busboy to 18-unit franchisee

Written By
KERRY PIPES

When his parents bought their first Schlotzsky's in the mid-1990s, JJ Ramsey was a 14-year-old teenager. "The job really taught me how to be successful regardless of what you choose to do in life." Working in the family business, he says, taught him basic life skills, the importance of hard work, and a general sense of responsibility. Now more than two decades later, life has come full circle as Ramsey's own teenage son is working for him in one of his Schlotzsky's.

Ramsey's Lotz of Bunz & DMFH Restaurant Enterprises LLCs operate 18 Schlotzsky's in Texas, Arkansas, Missouri, and Kansas. His journey from working at his parents' Schlotzsky's to building his own portfolio is filled with wisdom and insights that many family franchisees can learn from as they map out their growth plans and someday prepare the business for sale.

The Ramsey family was a close clan where mom, dad, and all five kids worked in the business. That works out well if the family is close, says Ramsey. "We had the chance to grow together professionally and work together on a daily basis. That's something I really miss at this point in my career. It was always nice to see my mom and dad at the office or to work alongside my siblings."

In the Ramsey family business, division of labor was simple: jobs were doled out by age. "I was the youngest, so I started as the operations guy and worked my way up to the area manager over all eight units in Tulsa and Oklahoma City," he says. As his older brothers' roles changed, Ramsey often would be next in line to fill those positions. Along with age, he says their individual interests also were taken into consideration. For example, after college his sister started managing the administrative aspects of the business, but her passion was HR so she took over that department.

The business didn't create any tension within the family, says Ramsey. "We grew up with my dad talking business at the dinner table. For us, it was normal to be exposed to conversations about work and business on a daily basis. So overall, there wasn't much stress and conflict on that front—just the normal sibling dynamics at times!"

The family was actively involved in decision-making for the business. For example, says Ramsey, after the great success of the first three locations his parents wanted to continue growing. They all loved the brand and what it offered and recognized it was important to build locations in cities they knew well. "We spent a lot of time making sure we picked the right locations. I can even remember going out with my mom and counting traffic in key areas to help determine the right location for a new restaurant," he says.

As the years went by, discussion inevitably turned to what was next for the family business. Ramsey says there were lots of conversations, especially between him and his brother, but they weren't in a place to buy the entire company. "Dad wanted to sell as a package versus just selling the individual units, so it wasn't the right time for us," he recalls. In 2011 a suitor came along and purchased all eight units. "Focus Brands was looking to build up their portfolio of Schlotzsky's restaurants, and we had eight attractive locations, all performing well with good leadership and all driving strong revenue," he says.

"At the time, I was scared as to what my next move would be, but looking back it was the best thing that ever happened." That's because Schlotzsky's then-president hired him as a consultant. "I credit my time as a consultant for helping me really learn the business side of running a restaurant," he says. "I was able to build even more relationships during this time, which helped me prepare to own my own restaurants."

During his consultant years he met Jim Barnes, a franchisee in Arkansas. He worked closely with Barnes to help improve his store. Eventually, they began to talk business. In 2015, Ramsey secured his first location. Now, 5 years later, he has 18 stores and is in "extreme growth mode."

Ramsey knows one day it will be time for his business to change hands. He says he'll look to his kids first, but won't apply any pressure. In fact, he's shared this advice with his 16-year-old son and will tell his younger children the same: "Do exactly what makes you happy. You have no obligation to go into the family business. Try different things."

It's important, he says, to encourage your family, especially your children, to "do their own thing, so they do what they find most rewarding."

Ramsey's advice for other multi-unit operators planning for the future? Be engaged and present every day. The restaurant business is not just an investment where you can take a back seat. "You have to be engaged with your staff and restaurant leadership, whether that is virtually or in person. You need to share everything—the company vision, mission statement, financials. I want everyone to be aligned and on the same page."

He says if an employee does the same thing day after day but doesn't know the business, they will never feel part of the team or take ownership for their work. "I think it's important to teach my GMs that you want people to want your job, and that it's your job to teach and mentor them. It's not something to feel threatened by. It also gives them a chance to grow in their career."

After just 5 years as a multi-unit operator, Ramsey knows his own succession plan is important, but for now, he says, "I have lofty goals and want to keep going." ■

Ready To Sell?

A dose of realism for the current environment

Written By
CARTY DAVIS

Given the uncertainties of the current environment, there are several factors sellers must consider as they evaluate the potential sale of their business. Transactions are picking up and deals are getting done. However, given the varying levels of impact the pandemic has had on different segments of the economy and different brands within each segment, to complete transactions right now sellers must be realistic about the value of their business. The segment and brand of your business are critical factors in determining whether the value of your business has maintained, increased, or decreased over the past year, and whether there will be capital providers able and willing to support a transaction.

SEGMENT ASSESSMENT

It is imperative for sellers to evaluate how their business has performed throughout the pandemic. Start with the industry and segment of your business. As an example, the QSR segment has outperformed its counterparts in the casual, family, or fine dining segments. One key advantage QSRs have over their competitors is their flexibility and convenience for consumers through drive-thru capabilities, contactless pickup, third-party delivery, and mobile order and pay applications. Restaurants in the casual and family dining segments that saw success during the pandemic have been resilient in adopting a more contactless model by offering off-premise alternatives to counteract dining restrictions. The brands and concepts that especially prospered were those with a well-defined and user-friendly digital platform.

The region of the country matters, too. While every state has been affected by Covid, the level of economic pain and ultimate recovery has varied, and it is important to understand how your business has been affected compared with other regions. For example, if you have a dozen quick-service restaurants in a top-tier brand with drive-thru operations in the Southeast, chances are your business and profits were up in 2020 over 2019. The likelihood of a successful sales process and realized valuation is high, as interest in those assets continues to grow.

Conversely, if you own five fine dining restaurants in New York City, the ramifications of Covid have been significant. Owners in these situations should focus more on surviving than looking to sell their business, as valuations have most likely declined. There is a limited market for challenged assets currently, and the debt and capital markets continue to be difficult to navigate for brands and situations that have operating uncertainty. Valuations on challenged businesses will be on the low end as buyers are forced to allocate more capital toward equity contributions and cash reserves as performance is uncertain and difficult to project.

BRAND PERFORMANCE

If your business is part of a franchise system and you want to explore a potential sale, it is paramount that you understand the overall performance of your units *and* the overall performance of the brand/concept. The brand's performance is important in assessing value. Franchisees of national brands with the financial support of franchisors and suppliers have been better equipped to sustain the downturn of the economy over the past year. Brands that embraced technology before the pandemic have performed better than their peers, irrespective of segment, and are now trading at more-robust multiples. Contactless pickup, third-party delivery platforms, mobile ordering and pay, and scheduling applications have expanded off-premise sales and streamlined services, which has offset Covid challenges. Results have varied significantly across brands—even brands in similar segments—so an evaluation of your system is critical. Buyers will pay for results and positive, sustained performance, which should be captured as a valuation premium.

CAPITAL PROVIDERS

Because of the current business environment, potential sellers must understand and assess how capital providers view their segment and their brand. Capital providers have tightened their credit standards and, in some cases, may charge above-market interest rates to compensate for perceived risk and uncertainty. Limited support from capital providers also puts pressure on valuations in challenged segments. Sellers should require that any bona fide purchase offer include the details of the buyer's capital structure. Cash offers with no contingencies are ideal, but the exception. In most transactions, buyers will look to third-party capital sources to fund transactions.

Sellers should review a buyer's financing commitments carefully and place a premium on that buyer's certainty of closing. Many buyers are taking advantage of Covid uncertainties to re-trade deals because of financing issues, or using quality of earnings reports to justify price adjustments. Financing is fluid as lenders and capital sources hesitate to commit if uncertainties persist. Given their knowledge of lenders and the franchise and multi-unit lending landscape, industry advisory firms can help access and determine deal financing certainty.

FINAL THOUGHTS

When assessing the current state of your business and what the future may hold for a buyer, it is essential to have realistic expectations on valuation. Time spent assessing valuation before marketing your business will narrow differences between sellers and buyers and should ultimately lead toward a successful outcome in the sale of your business. However, multi-unit owners coming out of Covid with continuing operational and EBITDA challenges would be advised to wait and instead focus on an operational turnaround that will yield higher cash flow and an enhanced valuation as some sense of normalcy returns. Here's to better days ahead. ■

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.

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Change Means Opportunity

Are you set to take advantage?

Written By
DARRELL JOHNSON

We've seen this play out many times. The economy takes a dramatic downturn and during the recovery new companies arise with products and services tailored to a more rapidly evolving market. Existing companies try to keep up, and/or their franchisors are reluctant to do the hard work to make the necessary changes.

There are many reasons franchisors can give to not change too much. Among them is the need to convince franchisees that such changes are necessary. And in legacy systems, older, established franchisees may have little incentive to invest in "new." Franchisors can argue that ending up with a split system of newer and older models doesn't help the brand or its franchisees. And on and on. So what's my point here, you may be wondering.

Simply this. Multi-unit operators have significant advantages in the early stages of a recovery following an economic crisis. They have the know-how and access to capital and resources to move quickly. FRANdata has seen this story play out in multiple post-recessions. Perhaps the Great Recession was the best example. It was driven by a financial crisis. Therefore, access to capital was key early in the recovery. Consumers were ready to go, but financial institutions weren't. Who did banks focus on first in the franchise space? Operators with proven performance records. For the first 3 years, from 2009–2011, multi-unit operators were the darlings of the lending community and took advantage of it to grow. This period also coincided with the coming of economic age (translation: spending money) for Millennials, hence the explosive growth of personal service brands from food to fitness to hair care to massage. Multi-units were able to catch that wave.

A significant part of that wave was driven by new brands. FRANdata tracks all franchise activity, and early on we observed the substantial number of new brands showing up in certain sectors. We also observed a trend in certain sectors coming to market with new models of delivery, such as salon suites in the hair care sector. Understanding what those trends were early in the recovery gave multi-unit operators significant growth advantages that they benefited from over the next 10 years.

FAST FORWARD TO 2021

That leads me to what we see today. While the cause of this crisis was health-related, it affected consumers very directly—and for an extended period compared with past downturns—which has forced changes in consumer behavior. To be fair, most of the changes in behavior were evolving before the pandemic and many of these consumer behavior modifications we're seeing now would have gradually become more commonplace. The crisis just compressed the evolution into a revolution. *For multi-unit operators, understanding these changes is the key to the next wave of new opportunities.*

Finding opportunities that will lead to disproportionately faster growth and profit must focus on 3 things: 1) How is the consumer permanently changing? 2) Which existing brands are best positioned to connect with those permanent changes? 3) Are there new brands arising that represent the next fitness industry style wave?

I've written recent articles on the trends we're seeing in consumer behavior so I won't elaborate on that here. Suffice to say that we will look back on this period and recognize that many consumer changes were not new; they were in various stages of adoption before the pandemic, but they were accelerated so rapidly that clear winners and losers emerged based on how quickly brands could recognize and adjust.

As you look at the established brands you currently are working with or considering signing on with, I think the most important thing is to understand how much they need to be internally focused to address the problems they had before the crisis and/or were caused by the crisis. Undercapitalized franchisors, too rapid unit growth leading up to the crisis, low prospect screening standards, substandard technology support (this will be a big factor in the recovery for many across multiple functional areas), inefficient and/or dated product or service offerings, and so forth are due diligence criteria that should be part of your evaluation.

In our recent advisory work with brands, we are seeing a distinct 18- to 24-month advantage as the recovery gets under way for brands that came through the crisis largely unscathed and, in some cases, stronger. That advantage will have consequences for years to come because of the anticipated speed of initial recovery once it gets under way.

Finally, we're starting to see new brands coming to market in anticipation of how the consumer has changed or will be changed. It's still early, but it's worth watching new brand trends as these market signals are among the strongest indicators of the next phase of franchise expansion. They are challenging old assumptions and testing new ideas from product to delivery to support. ■

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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BURGERFI International
Burn Boot Camp
Buttry & Brown Development, LLC.
Byrider Franchising
Capital One
Capriotti's Sandwich Shop, Inc.
CapStar Commercial Realty
Captain D's
Carl's Jr and Hardee's
Charleys Philly Steaks
Checkers & Rally's Restaurants
Chicken Salad Chick
Choice Hotels International
Church's Chicken
Clean Juice
CLOVR Life Spa
Coffee Beanery
Concept Development Solutions (CDS)
Consumer Fusion
Cora Breakfast and Lunch
Crimcheck
Deliver Media
Del Taco
Denny's, Inc.
direct2you
Dog Haus
Drive Social Media
Dunkin' Brands
Earl of Sandwich
Einbinder & Dunn LLP
Entrepreneur Media, Inc
Envoy
Fazoli's Italian Restaurants
FOCUS Brands
Foremark Real Estate Services
Fountain
Franchise Capital Solutions
Franchise Update Media
Freddy's Frozen Custard & Steakburgers
Fuzz Wax Bar
G6 Hospitality
Global Franchise Group
Golden Chick
Go! Go! Curry!
Golden Corral
Goodcents
Granite Telecommunications
The Great Greek
Great Harvest
Grimaldi's Coal Brick-Oven Pizzeria
Guardian Protection
GUINOT
H20 Digital Marketing
Hand & Stone Massage & Facial Spa
Harbour Capital
Harland Clarke
HOA Brands
The Human Bean
Hungry Howie's Pizza
Ideal Image MedSpa
INFINITI HR
International Franchise Association (IFA)
Intrepid Direct Insurance
Ivy Kids Early Learning Center
Jack in the Box Inc
Jersey Mike's Subs
Jimmy John's Gourmet Sandwich Shop
The Johnny Rockets Group, Inc.
The Joint Chiropractic
Joyal Capital Management, LLC.
K9 Resorts Luxury Pet Hotel
Kahala Brands
Kent Franchise Law Group, LLC
Kids 'R' Kids Learning Academies
Launch Entertainment
Leasecake
Lemon Tree Hair Salons
Liberty Tax & Loans
Little Caesars Pizza
Loomis
Marugame Udon
Mary Brown's Chicken & Taters!
Massage Heights
Matthews Real Estate Investment Services™
Mayweather Boxing + Fitness
Modern Market Eatery
My Eyelab
MyTime
Netspend Corporation
Netsurion
New York Fries
The NOW Massage
Old Chicago Pizza & Taproom
OPA!
Ori'Zaba's
Oxi Fresh Carpet Cleaning Franchise
Pancheros Mexican Grill
Parapet Studios
Paris Baguette
Payroll Vault
PCS VoIP
Pearle Vision
Penn Station, Inc.
Phenix Salon Suites
Pinch A Penny
Pita Pit USA
Pizza Ranch
Placer.ai
Pollo Campero
Potbelly Sandwich Shop
PrepWizard
Proliant
Pronto Insurance
ProSource
Purchase Green Artificial Grass
PuroClean
Qdoba Mexican Eats
RAKKAN Ramen
The Rawls Group - Business Succession Planners
Raydiant
Rent-A-Center Franchising International
RESOLUT RE
Restore Hyper Wellness + Cryotherapy
Restaurant365
Retro Fitness
RNR Tire Express
Rubicon Global
Rusty Taco
Saladworks
Save A Lot, Ltd.
SBMA
School of Rock
Scooter's Coffee
Señor Frog's
ShiftPixy
Slim Chickens
Sloan's Ice Cream
Smashin Crab
Smoothie King
SocialMadeSimple
Sola Franchise LLC
Sonic
Steak n Shake
Subway
SwipeSum
Taco Johns
talentReef
TD Bank
Teriyaki Madness
Textline
Thrillz High Flying Adventure Park
Tide Cleaners
Tijuana Flats Tex Mex For All
Tin Drum Asian Kitchen
Togo's Eateries
Tommy's Express
Traliant
TriNet USA, Inc
Tropical Smoothie Cafe
True Lark
True REST Float Spa
Twin Peaks Restaurants
uBreakiFix
Unity Rd.
Universal Background Screening
Urban Air Adventure Parks
U.S. Bank
V Digital Services
Walk-On's Sports Bistreaux
Waterman Steele Real Estate Advisors
Waxing the City
Wharf Casual Seafood
Wingstop Restaurants
Wingzone
Wintrust Franchise Finance
Wired Telcom
WorXsiteHR
Zambrero
Zaxby's Franchising LLC
zignyl - Business Success. Simplified.