

## Area Rep Pre Conference Workshop (2008)

### 2008 Multi-Unit Franchising Conference

#### Development Strategies: Development Strategies: Accelerating Growth Through Area Representation

Wednesday, April 23, 2008, 1:30 p.m.-3:30 p.m.

#### Program Description in Brochure

This program is designed for emerging area representatives and franchisors considering growth with this business model in the United States. This growth model carries varying levels, such as “area franchising” or “area development,” but is best known as “area representation.”

Franchisors recognize the benefits of the potential for rapid expansion and reduced levels of operating expenses through area representation as area representatives take on certain obligations of the franchisor, and in turn, are compensated for doing so. This workshop covers the different type of area representation models, how they are typically executed, and the roles of standards of operating, compliance, and earnings claims in the process. What are the initial opening fees, how are royalties split, what does the development agreement look like? Who is responsible for site selection, collections, ongoing training, and support? What happens when area representatives exit the system? These questions, and many others, will be addressed throughout this drill-down workshop. Research conducted by *Franchise Update* and FRANdata will provide insights into current franchisor practices.

#### Outline

- 1. What are the risks and rewards of expanding through an Area Representative type model?**
  - Understanding the terms used to describe the area representative relationship.
  - Why do franchisors offer area representative franchises?
  - Can an area representative program serve as a vehicle to fund a franchisor’s growth?
  - What are the costs of Area Representation and are they justified by a faster growth rate?
  - Do you expose the brand to inconsistent enforcement and interpretation by using an area representation strategy?
  - What do Area Representatives look for in a franchisor? What should a franchisor do to attract area representatives from other organizations?
  - What do franchisors look for in an area representative organization? How important is it to select the right individual or organization to serve as Area Representative?
  - When can a franchisor recognize area representative fees from a tax standpoint?

**2. What are the Area Representative and Franchisor's respective roles, rights and responsibilities to each other?**

- Site Selection or Profiling
- Lease Reviews
- Real Estate – Working with site mapping and Real Estate Brokers
- In store Training/POS training, bookkeeping
- Opening Assistance
- Telephone and On Site franchisee visits
- Operations Inspections
- Conducting Regional Seminars for Franchisees
- Creation and Administration of Advertising Fund/Marketing Coop
- Establishing Successful Advertising Coop's
- Enforcement of System Standards
- Advise on use of marks in advertising or local marketing
- Assist in Collections
- Team Building - Importance of Goal setting and two way communication for a successful franchisee relationship
- Area Representative staffing - Minimum # of Support Personnel for every 20 franchisees in Area Representative Area
- Supporting the Area Representative? (Training, advice, support)

**3. How do you structure a winning Area Representative relationship?**

- What is the relationship between the size of the territory and development schedule?
- What is the right size area?
- What is the relationship of the royalty split percentage to obligations delegated
- Should Area Representatives be required to operate single units
- How should you calculate up front fees and when should they be collected?
- What training exists for Area Representatives (multi unit training) over and above single unit training?
- What franchise sales compliance training should be offered to Area Representatives?
- What tools can an Area Representative use to communicate with local franchisees and HQ?
- How is benchmarking information collected, compiled and shared with Area Representatives and single unit franchisees?
- Should Area Representatives participate in franchisor decision making and representation on FAC, Franchisor Ad Councils, or similar bodies?
- Should Area Representatives oversee local marketing coop, or council of single unit franchisees?
- What do you do if single unit franchisees don't open on time?
- What are the benefits of Mediation and other forms of early dispute resolution for resolving franchise disputes?
- Who should pay legal fees to get single unit franchisees into compliance?

- Who makes the decision to terminate or declare defaults under single unit agreements?
- What if single unit franchisees complain about their Area Representative?
- What do you do with an Area Representative who is behind schedule?
- What do you do with an Area Representative who is not performing its obligations up to the franchisor's standards and specifications?
- How much opportunity to cure should you give? Should you terminate to try or try to get the Area Representative to transfer?
- Can you enforce the Area Representative Agreement if other Area Representatives are also behind schedule?
- Should Area Representatives disclose prospects with the FDD, or should HQ?

**4. How will the emergence of multi branded Area Representatives affect the franchise contracts and relationship?**

- Success or Failure – What processes are needed to insure success? What issues will cause failure?
- Prospects – How to properly protect each brands prospects against cannibalization. How can multi-branded Area Representatives leverage this into more prospect leads?
- Support – How to properly staff to handle each brands uniqueness.
- Real Estate – How to leverage multiple brands to attract better real estate.
- Economies of Scale – How to leverage relationships with architects, contractors and vendors to benefit franchisees.
- Trade Secrets – How to protect each brands propriety information
- Contracts – Do you need to amend any standard contract terms to permit multi branded area representation?

**5. How do you identify quality Area Representative Prospects? How do established Area Representatives find new concepts?**

Where do existing Area Developers look for new opportunities?

- Business and Franchise Brokers
- Area Development Publications and Trade Shows
- Trusted Advisors – Franchise Attorneys, Franchising Professionals

Where can a Franchisor find Qualified Area Developers?

- Broker Relations Program
- Area Development Trade Shows and Publications
- Area Developers from other Franchise Verticals
- Outplacement Services Centers

Where do Area Developers find Franchisees?

- Referral Programs
- Franchise Marketing (In Unit Marketing)
- Networking

- Franchise and Business Brokers
- Internet Franchise Portals
- Seminars/Trade Shows

### Panelists

1. Jim Valentino  
Chief Operating Officer  
Tropical Smoothie Franchise Development Corporation  
4100 Legendary Drive, Suite 250  
Destin, FL 32541  
[jvalentino@tropicalssmoothie.com](mailto:jvalentino@tropicalssmoothie.com)  
1.888.292.2522 ext 135  
1.850.269.9845 Fax  
[www.tropicalssmoothie.com](http://www.tropicalssmoothie.com)
2. Marvin L. Storm  
President/CEO  
Blackstone Hathaway  
341 Constance Place  
Moraga, CA 94556  
[mstorm@blackstonehathaway.com](mailto:mstorm@blackstonehathaway.com)  
925.376.2900 ext. 201  
925.376.3916
3. Nikki Gahr Sells, CFE  
VP Franchise Development  
Tasti D-Lite  
341 Cool Springs Boulevard  
Suite 420  
Franklin, TN 37067  
[nsells@tastidlite.com](mailto:nsells@tastidlite.com)  
615.550.3012 (phone)  
615.550.3018 (fax)  
[www.tastidlite.com](http://www.tastidlite.com)

4. Christine E. Dura, M.Ed.  
Master Franchise Development Consultant  
Regional Director Arizona – Massage Heights Franchise  
Regional Developer Arizona, Orange County and San Diego –  
Health Source Chiropractic  
Massage Heights Franchise  
8520 East San Jacinto Drive  
Scottsdale, AZ 85258  
[CDura@MassageHeights.com](mailto:CDura@MassageHeights.com)  
480.219.0015 (phone)  
602.296.0383 (Fax)  
[www.MassageHeights.com](http://www.MassageHeights.com)
  
5. Dean Gonsior, President  
Gonz Development, Inc.  
512 S. Lynnhaven Road, Suite 104  
Virginia Beach, VA 23452  
[dgonsior@TSCHamptonRoads.com](mailto:dgonsior@TSCHamptonRoads.com)  
757.313.1941 (phone)  
757.313.1944 (fax)
  
6. Robert Tobias  
ROC Wings, LLC  
1133 Westchester Avenue  
Suite S225  
White Plains, NY 10604  
[rtobias@rocquiz.com](mailto:rtobias@rocquiz.com)  
914.253.8252 (phone)  
914.253.8264 (fax)

Moderated by:

Lane Fisher  
FisherZucker LLC  
21 S. 21<sup>st</sup> Street  
Philadelphia, PA 19103  
215.825.3100 (t)  
215.825.3101 (f)  
[lfisher@fisherzucker.com](mailto:lfisher@fisherzucker.com)

**Christine E. Dura, M.Ed.**

Christine Dura is a Master Franchisee Development Consultant and the Director of Franchise Development for Massage Heights Franchise. She currently is also the Regional Developer Arizona for Massage Heights Franchise, Regional Developer Arizona, Orange County and San Diego for HealthSource Chiropractic. She has consultant with such companies as BMW, University of Phoenix Online, Motorola, DeVry University, People's Bank, On Semiconductor, America West, Herbalife, 24-hour Fitness, and KOA Campgrounds.

**James "Dean" Gonsior**

Dean Gonsior is an Area Developer of Tropical Smoothie Cafés in Hampton Roads, Virginia and Chicago Illinois. From July 2004 through April 2006, Dean also served as Tropical Smoothie Development Corp.'s Chief Operating Officer. Since 2001, Dean has been personally responsible for the recruitment, training and mentorship of more than 50 franchisees and 12 area developers throughout the Tropical Smoothie Café system.

**Nikki Gahr Sells, CFE**

Nikki Sells is currently Vice President of Franchise Development for Tasti D-lite overseeing domestic development. Prior to joining Tasti D-lite, she served as Vice President of Franchising for Express Personnel Services overseeing the sale of franchises in the US, Canada, South Africa and Australia. Before joining Express Personnel Services, she was an owner of an Express Personnel Services franchise. She and her husband were named the International Franchise Association's Franchisee of the Year in 2001.

**Marvin Storm**

Marvin Storm is the Managing Director of Blackstone Hathaway, a regional franchise management company. Blackstone Hathaway is the regional franchisee in California and Nevada for AccuDiagnostics, a drug, alcohol, steroid and DNA testing concept.

**Robert Tobias**

Robert Tobias is the President of ROC Corporation, and Area Director for Quiznos in New York and New Jersey. Since 1999, ROC Corporation has opened over 100 units. He is also the President of Roc Wings, LLC, an Area Director for Hurricane Grill and Wings in New York and Connecticut, which is opening its first unit this year. He also served on the Quiznos' Area Director Council.

**Jim Valentino**

Jim Valentino is the Chief Operating Officer of Tropical Smoothie Franchise Development Corp., the franchisor of Tropical Smoothie Cafes. Prior to joining Tropical Smoothie, he was the Vice

President of Operations for Cold Stone Creamery taking the Cold Stone Creamery concept from 100 locations to 1,200 locations in just seven years.

# Tropical Smoothie

## Daily Operations Comparison by Dates

**Business Dates** 14/04/2008 – 20/04/2008  
 07/04/2008 – 13/04/2008  
**Locations** Tropical Smoothie  
**Revenue Centers** Restaurant

	14/04/2008 – 20/04/2008	07/04/2008 – 13/04/2008	Variance	
<b>Total Revenue</b>	<b>105,437.87</b>	<b>88,332.94</b>	<b>17,104.93</b>	<b>19.4%</b>
<b>Net Sales</b>		<b>78,833.34</b> <b>89.2%</b>	<b>14,965.44</b>	<b>19.0%</b>
Gross Sales		86,339.76	16,225.33	18.8%
Discounts		-7,506.42    -8.7%	-1,259.89	16.8%
<b>Service Charges</b>		<b>840.00</b> <b>1.0%</b>	<b>520.35</b>	<b>61.9%</b>
<b>Taxes</b>		<b>8,659.60</b> <b>9.8%</b>	<b>1,619.14</b>	<b>18.7%</b>
<b>Total Operating Costs</b>		<b>40,666.70</b> <b>46.0%</b>	<b>5,524.28</b>	<b>13.6%</b>
<b>Cost of Goods Sold</b>		<b>25,038.29</b> <b>31.8%</b>	<b>4,707.11</b>	<b>18.8%</b>
<b>Labor Cost</b>		<b>15,628.41</b> <b>19.8%</b>	<b>817.17</b>	<b>5.2%</b>
<b>Total Operating Profit</b>		<b>47,666.24</b> <b>54.0%</b>	<b>11,580.65</b>	<b>24.3%</b>
<b>Receipts</b>	<b>105,843.49</b>	<b>87,914.20</b>	<b>17,929.29</b>	<b>20.4%</b>
Paid In	0.00	0.00	0.00	0.0%
Paid Out	749.55	453.50	296.05	65.3%

### Operating Metrics

Service	Total	Average	Total	Average	Variance	
Guests / Avg Spend	0	0.00	0	0.00	0	0.00
Checks / Avg Spend	11,047	8.49	9,957	7.92	1,090	0.57
Table Turns / Avg Spend	0	0.00	0	0.00	0	0.00
Avg Table Turns / Minutes	0.00	0	0.00	0	0	0.00
Adjustments	Total	Count	Total	Count	Variance	
Returns	0.00	0	0.00	0	0.00	0
Voids	-797.79	288	-830.86	305	33.07	-17
Error Corrects	5,634.44	2,026	4,579.47	1,671	1,054.97	355
Cancel	800.83	358	842.46	340	-41.63	18
Labor	Total	Hours	Total	Hours	Variance	
Regular Time	16,372.71	2,554.35	15,628.41	2,438.82	744.30	115.53
Overtime	72.87	5.25	0.00	0.00	72.87	5.25
Sales Per Labor Hour	36.65		32.32		4.32	
Avg Hourly Pay	6.43		6.41		0.02	



### Daily Operations Comparison by Locations

**Business Dates** 14/04/2008 – 20/04/2008  
**Locations** VA- [REDACTED]  
 VA- [REDACTED]  
**Revenue Centers** Restaurant

					<b>Variance</b>	
<b>Total Revenue</b>	18,605.31		19,999.37		-1,394.06 -7.0%	
<b>Net Sales</b>	16,588.70	89.2%	17,981.82	89.9%	-1,393.12	-7.7%
Gross Sales	18,020.65		19,576.07		-1,555.42	-7.9%
Discounts	-1,431.95	-7.9%	-1,594.25	-8.1%	162.30	-10.2%
<b>Service Charges</b>	110.00	0.6%	130.00	0.7%	-20.00	-15.4%
<b>Taxes</b>	1,906.61	10.2%	1,887.55	9.4%	19.06	1.0%
<b>Total Operating Costs</b>	7,797.26 41.9%		8,233.22 41.2%		-435.96 -5.3%	
<b>Cost of Goods Sold</b>	5,226.15	31.5%	5,677.30	31.6%	-451.15	-7.9%
<b>Labor Cost</b>	2,571.10	15.5%	2,555.92	14.2%	15.19	0.6%
<b>Total Operating Margin</b>	10,808.06 58.1%		11,766.15 58.8%		-958.10 -8.1%	
<b>Receipts</b>	18,605.31		20,018.94		-1,413.63 -7.1%	
Paid In	0.00		0.00		0.00 0.0%	
Paid Out	0.00		687.91		-687.91 -100.0%	

#### Operating Metrics

	Total	Average	Total	Average	Variance	
<b>Service</b>						
Guests / Avg Spend	0	0.00	0	0.00	0	0.00
Checks / Avg Spend	1,974	8.40	2,013	8.93	-39	-0.53
Table Turns / Avg Spend	0	0.00	0	0.00	0	0.00
Avg Table Turns / Minutes	0.00	0	0.00	0	0	0.00
<b>Adjustments</b>	Total	Count	Total	Count		
Returns	0.00	0	0.00	0	0.00	0
Voids	-62.84	20	-124.76	38	61.92	-18
Error Corrects	1,037.63	386	1,122.34	386	-84.71	0
Cancels	47.59	44	264.05	87	-216.46	-43
<b>Labor</b>	Total	Hours	Total	Hours		
Regular Time	2,498.24	332.57	2,555.92	624.18	-57.68	-291.61
Overtime	72.87	5.25	0.00	0.00	72.87	5.25
Sales Per Labor Hour	49.11		28.81		20.30	
Avg Hourly Pay	7.61		4.09		3.52	



# Store and Date Comparison Report

Business Dates 14/04/2008 - 20/04/2008

Locations

Location	Net Sales	Prp Cost	Abot Cost	Marg Less Item	Guests	Per Guest	Discounts	Guests
<b>All locations:</b>	<b>93,798.78</b>	<b>29,745.40</b>	<b>16,445.58</b>	<b>47,607.80</b>	<b>11,047</b>	<b>0.00</b>	<b>-8,766.31</b>	<b>0</b>
VA	17,981.82	5,677.30	2,555.92	9,748.60	2,013	0.00	-1,594.25	0
18/04/2008	3,387.13	1,076.23	447.15	1,863.75	386	0.00	-323.95	0
16/04/2008	3,011.35	935.70	412.33	1,663.32	277	0.00	-214.99	0
19/04/2008	2,910.90	898.75	325.55	1,686.60	322	0.00	-188.03	0
17/04/2008	2,871.88	899.66	305.32	1,666.90	329	0.00	-230.44	0
15/04/2008	2,284.99	732.98	378.14	1,173.87	257	0.00	-242.43	0
14/04/2008	2,009.98	665.96	342.69	1,001.33	256	0.00	-286.27	0
20/04/2008	1,505.59	468.02	344.74	692.83	186	0.00	-108.14	0
VA	16,588.70	5,226.15	2,571.10	8,791.44	1,974	0.00	-1,431.95	0
19/04/2008	3,398.58	1,060.69	392.63	1,945.26	400	0.00	-258.99	0
18/04/2008	2,941.25	942.13	387.56	1,611.56	353	0.00	-307.44	0
17/04/2008	2,484.86	776.87	372.33	1,335.66	291	0.00	-193.80	0
16/04/2008	2,314.63	719.40	403.76	1,191.47	277	0.00	-165.91	0
15/04/2008	2,119.28	670.85	367.06	1,081.38	258	0.00	-193.95	0
20/04/2008	1,813.22	572.45	342.78	897.99	202	0.00	-160.64	0
14/04/2008	1,516.88	483.76	304.99	728.13	193	0.00	-151.22	0
VA	16,445.29	5,404.78	3,272.56	7,767.95	2,045	0.00	-2,191.11	0
18/04/2008	3,224.64	1,067.85	587.39	1,569.40	405	0.00	-457.57	0
17/04/2008	3,086.31	992.36	458.56	1,635.38	367	0.00	-335.49	0
19/04/2008	2,679.26	815.37	470.59	1,393.30	301	0.00	-132.32	0
15/04/2008	2,356.65	810.40	474.04	1,072.21	286	0.00	-437.60	0
16/04/2008	2,209.73	753.03	516.29	940.41	310	0.00	-386.82	0
14/04/2008	1,710.41	603.56	499.20	667.65	241	0.00	-370.77	0
20/04/2008	1,178.29	362.21	326.50	489.58	135	0.00	-70.54	0
VA	14,873.53	4,616.47	2,938.34	7,318.72	1,940	0.00	-1,044.74	0
18/04/2008	3,152.72	979.77	521.24	1,651.70	408	0.00	-225.71	0
19/04/2008	2,522.46	772.80	434.94	1,314.72	294	0.00	-142.36	0
17/04/2008	2,297.61	703.37	462.20	1,132.04	319	0.00	-127.80	0
15/04/2008	2,183.97	681.55	380.44	1,121.98	275	0.00	-166.17	0

Location	Net Sales	Prep Cost	Labor Cost	Material Less Item Disc	Chefs	For Guest	Discounts	Guests
16/04/2008	1,939.34	609.35	425.70	904.29	276	0.00	-161.87	0
14/04/2008	1,617.47	503.95	381.44	732.08	202	0.00	-120.10	0
20/04/2008	1,159.96	365.68	332.38	461.90	166	0.00	-100.93	0
VA-16/04/2008	11,553.12	3,651.89	1,819.66	6,081.57	1,246	0.00	-1,038.71	0
18/04/2008	2,221.87	701.34	290.41	1,230.12	253	0.00	-196.33	0
17/04/2008	2,173.85	681.60	263.19	1,229.06	240	0.00	-176.45	0
19/04/2008	1,909.27	603.31	337.46	968.50	193	0.00	-170.98	0
15/04/2008	1,821.64	579.26	256.59	985.79	167	0.00	-175.69	0
16/04/2008	1,311.03	404.88	224.03	682.12	161	0.00	-85.02	0
14/04/2008	1,226.36	398.64	230.85	576.87	152	0.00	-148.02	0
20/04/2008	889.10	282.86	197.12	409.12	80	0.00	-86.22	0
VA-18/04/2008	8,590.92	2,703.86	1,949.20	3,937.86	933	0.00	-731.80	0
18/04/2008	1,826.60	563.64	311.56	951.40	200	0.00	-116.69	0
19/04/2008	1,527.68	476.84	273.85	776.99	151	0.00	-116.39	0
17/04/2008	1,418.32	453.27	317.37	647.68	136	0.00	-144.47	0
16/04/2008	1,336.31	409.55	296.20	630.56	148	0.00	-75.87	0
15/04/2008	1,102.39	339.39	279.88	483.12	137	0.00	-67.80	0
14/04/2008	875.19	294.05	262.66	318.48	93	0.00	-138.73	0
20/04/2008	504.43	167.12	207.67	129.64	68	0.00	-71.85	0
VA-17/04/2008	7,765.40	2,464.95	1,338.79	3,961.66	896	0.00	-733.75	0
18/04/2008	1,519.09	484.26	203.71	831.12	167	0.00	-150.64	0
19/04/2008	1,419.52	447.68	261.50	710.33	165	0.00	-124.16	0
15/04/2008	1,012.46	325.93	183.38	503.15	120	0.00	-111.43	0
17/04/2008	995.23	314.31	179.42	501.50	139	0.00	-88.47	0
14/04/2008	964.45	300.22	172.25	491.98	99	0.00	-70.68	0
16/04/2008	935.78	295.71	169.73	470.34	121	0.00	-83.74	0
20/04/2008	918.87	296.84	168.80	453.23	85	0.00	-104.63	0

