

Area Developer

2008 Multi-Unit Franchising Conference

Development Strategies: Multi-Unit Franchising Fundamentals (MU101)

Wednesday, April 23, 2008, 10:30 a.m. to 12:00 p.m.

Program Description in Brochure

Start right! Get a firm foundation in the basics before you delve into the careful planning and rigid disciplines necessary to grow successfully through the early stages of multi-unit franchising. This workshop is designed for franchisors and franchisees looking at growing through a relationship where a single franchisee (whether an individual, partnership or corporation) is granted the right to open and operate multiple units within a particular geographic area.

What do these development agreements look like? How do franchisors determine size of territory, exclusivity and number of units? Equally important is the development schedule? Are there incentives for early openings? Do franchisees pay their franchise fees up-front or as they go, or a combination of both? What happens if the franchisee does not stay on schedule? Research conducted by Franchise Update Media Group and FRANdata provide insights into current franchisor practices on the following topics.

- Size of territory
- Exclusivity
- Number of units
- Development schedule
- Incentives for early opening
- Limiting personal guarantees

OUTLINE FOR 2008 MULTI UNIT CONFERENCE (MU101)

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MODULE 1

- Introduction – Multi-Unit Facts and Figures
- Preparing for Multi Unit Development
 - Are you, as a franchisor, ready to offer, sell and support multi unit operations?
 - Understand your strategic goals and growth plans
 - Can you support the plan financially, development, training and resources.
 - Setting up your sales team for success
 - Ensure you are 'Easy to Use)
 - What makes an effective organization?

- Are you, as a franchisee, ready to establish and operate multiple units?
 - What's important, what are multi-unit operators looking for in a brand.
 - What turns them off.
 - What do you look for in a multi unit franchise opportunity?
 - Be disciplined around your criteria and be willing to say NO.
 - Plan your franchisee community to fit your strategy
 - Why would you, as a franchisee, want to become a multi unit operator?
 - What motivates a multi-unit franchisee
 - How do they shop for new brands
 - How do you, as a franchisor, know if you have the right brand for multi unit development?
- Infrastructure
 - As a franchisor, how do you determine what type of infrastructure and support is best for a multi unit development plan?
 - Understanding your end goal
 - What is the franchising expecting?
 - What type of "personnel development" plan is needed to support a multi unit development program?
 - What to add and when
 - Centralized v. De-centralized management
 - As a franchisee, how can you evaluate operations depth and strength of unit level and area level personnel?
 - clear expectations/roles,
 - make sure the franchisor is capable and understand the scale and efficiencies involved.
 - Regional office vs. central office – geography, uses of technology, communication systems.
 - Selecting an Expansion Strategy
 - What issues do you consider in selecting an expansion strategy?
 - Costs, ability to support, what fits the existing network
 - Operationally and financially, what are some practical strategies for properly supporting a growing multi unit development plan?
 - Plan ahead
 - Decide your growth strategy and be willing to be the resources in place
 - Training is key
 - Is there a different marketing strategy for developing and managing multiple units?
 - Recruitment is completely different
 - Attracting the candidate
 - Understanding the franchisees current business accument

- If real estate acquisition is involved, how do you deal with the potential need to scout and acquire real estate well in advance?
 - Setting expectations from the first meeting
 - Outlining the level of support from the franchisor

Potential Rewards	Potential Risks
Accelerated Growth	Loss of Control
Reward Productive Franchisees	Problems in Addressing Defaults and Affecting Terminations
Market Penetration Strategy	Litigation Complications
Attract Potential Franchisees	Impact on Franchisees and Suppliers
Liquidity-Mitigate Failure Rate	
Reduction in Training and Assistance	
Operating Marketing Efficiencies	

- Structuring a Multi Unit Transaction
 - How can you structure a Multi Unit Transaction/Legal Structure?
 - What are the pros and cons associated with a “master franchise” or “area developer” type of agreement?
 - Company Owned Operations
 - Establish 4 – 6 units with your money before franchising
 - Fine tune the service/operation/etc
 - Operate for a few years to be sure the model / business “works”
 - Establish model for a variety of demos....suburban, urban, blue collar, campus, non traditional, etc
 - Option Agreements / Rights of First Refusal
 - May be a good plan initially to get the needed shot in the arm
 - Once in rapid growth or maturity, advise against at this may lock up valuable territory that could otherwise be developed
 - BWW did these deals early on to jump start development and provide incentives. We stopped in the late 90’s
 - Area Development Agreements
 - Big fan
 - Keep them realistic
 - Time lines and commitments need to be aggressive yet attainable
 - Don’t let people cherry pick the best trade areas and sites
 - Keep them contiguous
 - Royalty abatement as incentive to open units on schedule Example:
 - Need to monitor and manage the development schedule. Critical to remain on schedule and that the schedule be attainable
 - Area Representative Agreements
 - “Triangle Structure” – no one is the weakest link
 - Sales function is key – same points as above on schedule / timeline
 - Support function is important
 - Communication is critical for mutual benefit and understanding

- Unit operation required for credibility and “showcase” unit
 - Sub-Franchise Agreements
- Multi Unit Franchisee /Area Representative Recruitment
 - How do you recruit new multi unit franchisees/Area Representatives?
 - Develop a Franchisee Recruitment Plan/Understanding the prospects’ Research Process
 - Use a Contact Management System
 - Where do franchisees/Area Representatives look for franchise opportunities?
 - Circle of Influence-leveraging your prospects’ contacts and advisors
 - Networking with lenders, landlords and real estate brokers
 - Using business brokers and franchise referral networks
 - Using existing franchisees for recruitment
 - Marketing to other systems’ franchisees
 - Working your franchisor’s booth at franchise conferences, industry trade shows and local events
 - Using local advertising to recruit Area Representatives
- Growing Existing Franchises
 - How much growth should you expect from existing franchisees?
 - Amount will depend upon maturity of the system – newer system will likely need to rely on more new vs. a more mature system with a larger number of franchisees.
 - Develop measureable Expansion Eligibility criteria?
 - Ensuring adequate infrastructure to accommodate growth
 - Verify financial ability to complete the growth and remain solvent
 - Franchisee mentoring programs
 - Mentoring programs are popular, structures are easy to find.
 - Gives mature owners a new purpose, gives new owners additional support and depth
 - Performance Groups are popular – uses peer pressure and group format to leverage time and learning, deeper support and more personal relationships
- Multi Branded Franchisee
 - Why do you look to expand outside your brand?
 - Motivations - saturation of market area with current system
 - Operational Issues– leverage of infrastructure / staff / systems
 - Confidentiality
 - Separate Silos vs. Cross Training– consider brand managers
 - Concepts of Competition – non-competes
 - What contractual restrictions inhibit your ability to develop additional brands?

- What are the key deal points in a multi unit transaction?
 - Development Areas or Targets
 - Be sure it follows your development plan – geography, support, operations, training, distribution, etc.
 - Population
 - Demos
 - Drive Time
 - Draw
 - ETC
 - Development Schedule
 - Make sure realistic and attainable
 - Understand the applicable Real Estate requirements and competition
 - Population
 - Retail Draw
 - Traffic counts and patterns
 - Destination
 - Daytime/nighttime population
 - Area employers
 - Rent vs. Own
 - Household income
 - High School Education / College Education
 - For Restaurants – Food away from home
 - Term
 - Franchise Agreement Term
 - Multi Unit Agreement Term
 - Development or Exclusivity Fees
 - Franchise Fees and Deposits
 - Royalty Rates
 - Events of Default
 - Acquisition / Right of First Refusal
 - Facility Upgrades and Maintenance Requirements
 - Renewal Rights
 - Diversity
 - Marketing
 - Data Transmission and Reporting Requirements
 - Business Planning
 - Incentives
 - Substantial Compliance & Remedies
 - Training
 - Disclosing a multi unit offer
 - Separate Offer
 - Registration Requirements
 - Multiple Unit financial performance representations

MODULE II – How do you drive operations excellence and teach best practices using benchmarking?

- How do you drive Operations Excellence from the Franchisor and Franchisee Perspective
- Benchmarking Process
 - Identify what is to be benchmarked – KPI's and other measurables, make it automatic (See Dashboard)
 - Identify comparative companies
 - Determine data collection method and collect data – automated from POS and on-line for review
 - Determine current performance
 - Project future performance – goal setting functionality
 - Share benchmarking findings – “groups” tab by type / size / age of store or market. Convention materials for system-wide sharing by franchisor, get's the franchisees talking!
 - Establish goals and implement plans – use of Advisory Council, Finance Committee – over communicate the program and train how to use it for improvement.
- Relationship to Earnings Claims

MODULE III – What tools are in place to build relationships with franchisees?

- Training – best practices
- Support – opening and ongoing support teams
- Staffing
- Communication
- Franchise Associations
- Advertising Councils
- Franchisee Participation in Decision Making
- Dispute Resolution
- Encroachment
- Dealing with Defaults

MU 101 Panelists

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Todd Evans

Todd Evans is currently Vice President, Franchising of Aaron Rents, Inc. He joined Aaron Rents in June 1991 as Director of Franchise Development, when it had 19 units. From March 2000 to October 2000, he served as President of Her-Kel Investments, a franchisee of Aaron Rents. He rejoined Aaron Rents in October 2000. Today, Aaron Rents has 1,500 units.

John Francis

John Francis has over 25 years in franchising and is currently an Area Franchisee for PostNet in Minnesota and Wisconsin and is the Chairman-elect of the IFA's Franchisee Forum. Prior to becoming an Area Franchisee for PostNet in 2001, he had various executive positions with The Barbers, a publicly traded hair salon franchisor of Cost Cutters, City Looks, We Care Hair and The Barbers salons in the US and three foreign countries.

Peter Hegele, CFE, FMP

Peter Hegele is the Divisional Vice President of Operations and Franchise Relations for Buffalo Wild Wings Grill and Bar. He is the co-founder and member of the current Buffalo Wild Wings Leadership Council, an executive advisory council made up of franchisees and company leadership. Prior to his current position, he served in a variety of franchise support, restaurant operations, and development roles with ARAMARK, Big Apple Bagels and Wendy's International. He has worked in the restaurant and hospitality industry for over 20-years.

Lynette McKee, CFE

Lynette McKee is currently the Vice President of Franchising and New Business Development for Dunkin Brands. Her franchise career has spanned the last 19-years in the hospitality industry. Lynette has also served in executive positions at Burger King and Metromedia Restaurant Group, the parent for Bennigan's Grill and Tavern, Steak and Ale, Ponderosa and Bonanza Steakhouse. Prior to franchising, she was co-owner of McKeeCo Commercial Real Estate Services in Nashville, Tennessee.

Roland C. Spongberg

Roland Spongberg is the President/CEO of WKS Restaurant Corporation. WKS currently owns 52 El Pollo Loco restaurants in Southern California, Arizona, Denver and El Paso, making it El Pollo Loco's largest franchisee. WKS is set to open the first of 15 El Pollo Loco restaurants in Utah. WKS's subsidiary recently signed a development agreement with Corner Bakery Café, Inc. to open 15 restaurants in the Phoenix area. He was awarded the International Franchise Association's Franchisee of the Year Award in September 2007.

Franchise Startup Expansion Tips

- 1st question. Does your brand have legs to go national?
- 2ND question. What does your brand provide the public that they can't get elsewhere?
- 3rd question. What are the competitive barriers to entry for your product/brand?
- LESSON 1. After the 1st unit / store / office are a major success and you think you are great. STOP. Check your ego at the door. IGNORE ALL THE CONSULTANTS, BROKERS, RELATIVES AND CUSTOMERS WHO ARE TELLING YOU THAT YOUR BRAND WILL BE THE NEXT MCDONALDS.
- Open 4-6 more company units using your own \$\$ BEFORE considering franchising.
- LESSON 2. Find what you don't know. Establish, fix, then re fix ops, training, construction system/procedures for a few years BEFORE selling franchises.
- Establish unit level economics in various demographics BEFORE franchising. Example: suburban, blue collar, urban, campus, nontraditional.
- Be prepared to adjust menu(services offered), hiring and unit level economics based on differences by US regions involving BO cost, rent factors, permit time frames, liquor costs and HR(minimum wage) issues.
- LESSON 3. Get a good experienced franchise attorney to write the FDD in plain English.
- Make the FDD readable and fair to zees. WOULD YOU SIGN YOUR OWN FA/AD?
- Develop respect from the beginning of the zee relationship, and then nurture it.
- **DO NOT SELL FRANCHISES TO MEET PAYROLL. YOU WILL REGRET IT LATER.**
- **DO NOT SELL FRANCHISES TO RELATIVES OR FRIENDS.**
- **DO NOT SELL FRANCHISES BASED ON WHERE THE FLATTERING PHONE CALL CAME FROM.** Example: your based in CA and Mr. Right wants to buy a franchise in NC or FL
- For the 1st 3 years sell franchises in immediate adjoining states only so that ops support and training can be fine tuned with minimal air travel and overhead, thus maintaining costs to a manageable level and setting franchisees up for success.
- Recruit domestic zees who have a passion for your industry (ex: restaurants, etc); can be part of a larger team and are humble enough to admit they don't know everything.

- LEAD GENERATION. If using lead generating web sites, remember, it's about qualified leads, not how many hits you get. Use web site financial and ops filters.
- LESSON 4. In FDD establish Item 19 earnings claim in FDD. It does not need to be elaborate. AUV with disclaimers will suffice. **THIS WILL KEEP YOU AWAY FROM LITIGATION LATER.**
- IF YOU DON'T USE EC IN ITEM 19 THEN DON'T ALLOW SALES AND COST INFORMATION TO BE USED IN PR RELEASES OR ON WEBSITE. It's against the law and will get you sued when zees fail later.
- When recruiting new zees, focus on good general PR especially if marketing budget is limited. Focus the PR on uniqueness of the brand and its broad appeal, not by showing sales numbers, etc. (see above) 3rd party endorsements are more powerful with prospects than you saying you are good.
- LESSON 5. REAL ESTATE. Prevent your brand from requiring a hard corner site or you won't grow nationally as fast as you want. In free standing hard corner locations you will fight with fast feeders, Walgreens and economics may cause your franchisees to fail.
- Don't ask zees to open stores in less time than you ask yourself. Typical: 12-15 months.
- An 80-20 run rollout rate is ideal. (80% franchise stores, 20% corporate. The 20% corporate should be your test stores. This plan will provide credibility with zees that you own and operate your own stores so that when you ask the zee community to make ops or other changes they will more readily accept it.
- LESSON 6. DO NOT SELL INTERNATIONAL FRANCHISES UNTIL YOU HAVE AT LEAST 100 (PREFER 300) US UNITS and you are ready to dedicate 1M cash to hire experienced international personnel, trademark registrations and other infrastructure. **THIS MISTAKE HAS KILLED MANY FRANCHISORS. INTERNATIONAL LITIGATION IS NOT FUN.**
- FINAL POINT. IF YOU MUST HAVE TOTAL CONTROL OF YOUR BRAND. DON'T FRANCHISE. REGARDLESS OF WHAT THE DOCS SAY YOU WILL HAVE PUSHBACK FROM ZEE COMMUNITY ON SOME ISSUES. WELCOME TO FRANCHISING.