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BETH EWEN, JONATHAN MAZE AND NANCY WEINGARTNER

FRANCHISE TIMES
20 TO WATCH
PEOPLE, BRANDS & IDEAS TRENDING IN 2014

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What's commanding our attention at Franchise Times as the new year dawns? Well, hundreds of random items (we reporters are super-curious and often struggle to focus), but we've boiled them down to 20 notable people, companies and trends expected to make news.

Minimum wage protests show no signs of slowing

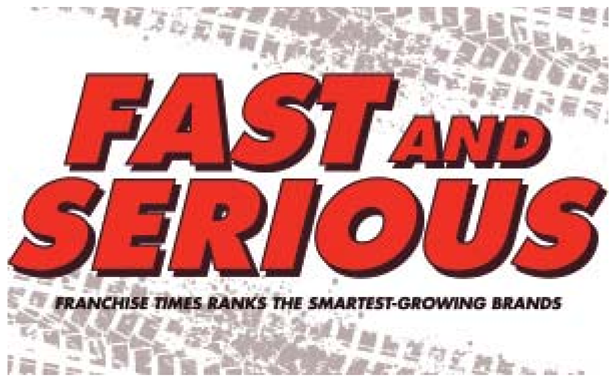
Expect a rise in minimum-wage protests this year, which in 2013 featured "strikers" across the country at various fast-food chains chanting in favor of higher pay. The White House in November came out in support of a federal minimum wage of at least $10 an hour, supporting the Harkin-Miller bill that raises the rate to $10.10, from its current $7.25. Last September, California passed a law that will raise its minimum wage to $10 an hour by 2016. Washington state has the highest state minimum wage at $9.19 an hour, and some cities have higher wages, including San Francisco, with $10.55 an hour, and SeaTac, Washington, which passed late last year a $15 rate. The restaurant industry, naturally, is against such proposals, but they look unlikely to go away. (For advice on dealing with minimum-wage protests at your restaurant, read this issue's Continental Franchise Review column, page 57.)

Consultants set sights on Middle East franchising

If you can't find a franchise consultant in your neighborhood, try Dubai. The Middle East is the new hot spot for franchising, thanks to government programs in the UAE and Saudi that encourage both small business ownership and existing local companies to franchise, says Mark Siebert, CEO of iFranchise. Plus, money is plentiful there, while local experience in franchising is not. After "looking for a partner this good for 10 years," iFranchise is opening an office in Dubai, as is Management 2000, as well as a firm from England and others. MSA opened and closed its office in Dubai because as MSA's Michael Seid says, "There was no way to control quality or enforce standards. I ended the relationship almost as it began." Siebert, however, is bullish on expanding the iFranchise brand there, where they've been consulting in the area from the U.S. for several years, and now have a partner on the ground.

New ranking to identify smartest-growing brands

Franchisors, start your engines. Franchise Times will unveil the smartest-growing brands in franchising in March, using a proprietary formula and the best database in the business to create a unique ranking. We'll be analyzing the companies on our annual Top 200 plus 300 list, but adding a twist: percent unit growth and percent sales growth over three years, so we weed out any one-time-wonder brands that boom but then fizzle. We'll identify the franchise systems performing above their peers for three years running, and tell how their leaders make it happen. The result will be a must-read ranking of those powerhouse players that truly set the pace.



McDonald's reins in bulky menu to put more focus on better service

Over the past decade, McDonald's has increased its unit volumes to $2.7 million, among the quick-service sector's highest, by adding new products and remodeling its stores. But now the company is planning to pull the reins on both efforts. The Oak Brook, Illinois-based burger giant—along with many of its franchisees—believes its menu has grown too cumbersome, which is affecting service standards in an era of brutal competition. So the company plans to delay some remodels scheduled for next year, and instead plans to spend that money on the kitchen and other areas to speed up service.

Those improvements include high-density tables so customers can customize orders and workers can move products through more quickly. It may also add new ordering technology. And it plans to limit the slow pace of some limited-time offers while marketing core items more heavily. The effort could help usher in an era in which the major QSR concepts, including Wendy's and Burger King, start competing not on price but on customer service. That will be good for customers, but will also put pressure on operators to perform.

Turnaround expert applies his methods to Pearle vision

"My career of 30 years is turnarounds, and this is a turnaround case," says Srini Kumar, general manager at Pearle Vision. "I like the challenge of fixing something that's a problem, and I see that as an opportunity." He's talking about his work for the last 18 months on Pearle, part of the Luxottica collection of brands and one of just two or three franchised optical chains. He spent the first six months or so answering the question, "Who am I?" That is, what sets Pearle apart from others. Next has come a research phase to test various hypotheses about the ideal mix for improving unit economics. For example, the new prototype store unveiled in August, a corporate-owned store, was 2,500 square feet. Now they're testing the store at 1,600 square feet. For another example, the average eyeware store carries more than 3,000 frames; Pearle is testing a version with about 1,000. They'll keep testing for the next six months, refranchising many corporate-owned stores along the way. Then when Kumar believes the unit economics are optimal, they'll start adding new franchisees. Kumar has made a big impact on mindset. Stores used to cost $500,000 to build; now that's been cut in half, pointing to an obvious leap in cash-on-cash return on investment. Kumar's already worked his magic on Baskin-Robbins and Dunkin' Brands, and this time around bears watching, too—pun intended.

Srini Kumar is in the midst of a turnaround at Pearle Vision.

E-cigarettes market smokin' hot as regulators take aim

Electronic cigarettes have been called "a battery-operated, addiction-based market to watch," but that turn of phrase understates the case. Celebrities like Uma Thurman have been known to puff away—or "vape" as it's called—on the non-burning, electronic nicotine delivery systems. But the ordinary masses who have fewer and fewer places where they can light up make the most promising target. VaporSmith is just one of many brands, promoted to those who own convenience stores, gas stations or smoke-free hotels, bars and restaurants as a way to generate new revenue. Blu Ecigs, White Cloud, Wake-n-Vape, Nikki's Vapor Bar and many more franchised and non-franchised brands are flooding in.

All are trying to gain traction before the Food & Drug Administration restricts marketing, as they've done for years with traditional cigarettes. As of now there are no federal regulations for how e-cigarettes are made or how they're marketed. But expect a firefight this year, especially as anti-smoking experts worry over marketing to kids. Users have the choice of filling their device with flavored liquids that may or may not contain nicotine. Flavors abound, ranging from traditional tobacco to cherry, bubblegum and chocolate. "It's like 1935 all over again," says one anti-smoking advocate. "If you look at the advertising strategy of the e-cigarette industry, it is directly related to starter smokers."

Young firms go global, much earlier than in past

Thirty years ago, attorney Michael Daigle of Cheng Cohen advised emerging franchisors to tackle all four corners of the U.S. before going international. Those were the days of communicating via fax machines and expensive overseas flights, he says. Today, because the world is getting smaller, he gives the opposite advice. Technology, plus social media, plus an affinity overseas for American brands all add up to enormous opportunity for the patient franchisor. Another boon to this trend is more good partners are available, as foreign companies that cut their teeth on the larger franchisors and are now looking to add emerging brands to their portfolio. The trick, he cautions, is to expand wisely so resources from your U.S. operations aren't diverted. But be prepared, if you're not McDonald's or Disney, you'll have to introduce your brand all over again, he cautions.

It's time to act on Obamacare, and voila! We offer new series

Everyone will be watching Obamacare this year—duh. But we at Franchise Times are recommending a change in focus. Based on our conversations with experts and forward-looking franchise operators, this is the year to act. To help people figure out how, we offer a new 10-part series, debuting in this issue, called Healthcare SOS, which lays out action plans for franchisors and franchisees to deal with the new law. Consider it one more way we at Franchise Times strive to be of service to you, dear readers.

HEALTH CARE SOS

Tabletop ordering systems to gain first national test, with Chili's leading way

Tabletop ordering systems have long offered hope they can bring back some of the customers casual-dining chains lose to fast-casual concepts at lunch because their service takes too long. But so far it's been just that: hope. That should change this year, or at the very least we'll find out whether that potential is real. Chili's, the Dallas-based casual dining chain, is adding tabletop ordering systems in all of its restaurants. Applebee's is following suit and other concepts are expected to do so, too.

This will give these systems their first, real test on a national scale. Small chains and independents and startups have mostly implemented these systems, which have generally received good ratings from restaurant owners. They've increased sales of drinks and desserts because consumers can order right from their table without having to flag down a server. They could also speed up service because customers don't have to wait for the check. They can pay right from the table. That could, in theory, bring back some of the lost lunch business.

Chicken wars wrest market share from venerable KFC

Now is a good time to be a chicken chain from the Southeast. Five of the fastest-growing restaurants in the country serve chicken as their main product. Three of them are based in Atlanta. One is in Charlotte. One is in Baton Rouge. And all of them are remaking the market for quick-service chicken, wresting market share from traditional leader, KFC. A decade ago, the Louisvillebased KFC dominated the chicken market. Today it's not even the biggest chicken concept in the U.S. That distinction belongs to Atlanta-based Chick-fil-A, which has grown steadily in unit count and same-store sales to become the Chipotle of the South. Meanwhile, Popeyes Louisiana Kitchen has been improving sales and ruffled some feathers when it took over multiple KFC locations in Minneapolis. The chicken-finger chain Zaxby's has enjoyed booming growth and now has system sales over $1 billion. Charlotte-based Bojangles and Baton Rouge-based Raising Cane's can also claim strong growth numbers.

Janet Yellen, Fed's new chair,walks tightrope with stimulus

The new year will see a new chairman of the Federal Reserve, Janet Yellen, and she'll start her new job by walking a tightrope. Franchisees and franchisors should pay close attention to her balancing act. The Fed has been aggressively buying bonds for more than a year as a way to keep down long-term interest rates, which encourages borrowing and, in theory, stimulates the economy. So anybody that has used low-interest loans to buy a franchise or expand one can thank that program, at least in part. Yellen supports the program, but critics believe those low rates will trigger inflation—some experts at our Restaurant Finance & Development Conference, in fact, were actively warning attendees about the prospect of double-digit inflation. But some fear what would happen if the Fed ended that program. Late last summer, just the mention of the possibility of a "tapering" of the program led to higher interest rates. At the very least, the threat of tapering and higher interest rates is expected to drive acquisitions this year, and sellers look to put their businesses on the market while rates are still low and buyers are more willing to pay higher prices.

Janet Yellen, Fed's new boss

PizzaRev attracts big-time investors after mere months

Usually, restaurants need to prove themselves with a few locations before they attract the attention of a big-time investor. PizzaRev needed 11 months. The California-based concept is one of a handful of chains hoping to make fast-casual pizza the Next Big Thing in the restaurant industry. These concepts sell single-serve, build-your-own pizzas that are made on the spot. As such, many expect these chains to be popular because they enable customers to eat pizza for lunch. PizzaRev was founded in 2012. It opened three units right off the bat, and the company quickly gained a reputation in Southern California. That reputation was enough to lure the interest of Buffalo Wild Wings. Its CEO, Sally Smith, personally visited PizzaRev as a customer before her company decided to invest in the chain. Buffalo Wild Wings is taking an active role in PizzaRev. How active? It plans to be the franchisee for locations that open early this year in Minneapolis, near its company headquarters.

PizzaRev's founders, left to right: Son and father Jeff and Irv Zuckerman; father and son Rodney and Nicholas Eckerman.

Global expert wants run of the whole world

Scott Chorna, Johnny Rockets

It's not easy being a road warrior—and it's not always easy keeping a road warrior from picking the wrong fork on the road if you're a franchisor. But Focus Brands' loss is Johnny Rockets gain. Scott Chorna has made every trade mission the past three years since Franchise Times became involved, except the last one to China. That's because he's now heading all of Johnny Rockets' international efforts as senior vice president of international development, after Steve Devine moved to the Middle East to work for Texas Roadhouse. We see Chorna as an example of the new international expert who wants more than just a paycheck—the chance to excel at a big job and a reward at the end of the run.

Wendy's refranchising gains intense interest, high multiples

Many large legacy restaurant brands have sold off company stores to franchisees in recent years, including Burger King, Yum Brands, Applebee's, Jack in the Box and even McDonald's. But few have generated quite the interest that Wendy's has. The Ohio-based burger chain wants to sell 425 company-owned locations by early this year. And stores have already been sold to some of the largest and most highly regarded operators in the country. That includes Kansas-based NPC International, which recently started buying Wendy's and is the second-largest restaurant franchisee in the country, according to Franchise Times' Restaurant 200. It includes the 5th largest, Junior Bridgeman. And it includes Wendy's third-largest operator, Cedar Enterprises. The refranchising has been in such demand it sparked rumors that the locations are fetching abnormally high multiples. In any event, it appears that Wendy's won't have any problem meeting its deadline for selling the locations in the first three months of the year.

Battleground concerning 'relationship' laws turns from federal to states

Lobbyists are shifting their attention more toward state issues and away from federal. Why? "That is where more of the action is right now," said Steve Romaniello, chairman of the International Franchise Association. He and others cite brewing legislation revising the relationship between franchisors and franchisees in California, Maine, Massachusetts and now Pennsylvania, all four states seeing a "resurgence of legislative efforts—this time at the state level—that may change the playing field," according to a DLA Piper alert. As DLA Piper puts it, "these recent efforts seek to tilt the balance in favor of franchisees by restricting franchisor practices that are deemed unfair, protecting franchisees' equity in their businesses and empowering collective actions by franchisee groups." The passage of such bills, the report continues, "would generate a host of problems." One on the other side is legislator Peter Daley, the point man in Pennsylvania. He's a former Quiznos franchisee who is the Democratic chair on the Consumer Affairs Committee—a person, no doubt, who favors more power to the franchisee.

IFA's new principles Elevate franchisees as part of 'us'

Fifteen years ago when Franchise Times published its first edition, our top story covered the brouhaha caused by a splinter group of franchisors who didn't want the International Franchise Association to allow franchisees in as members. What a difference a decade-and-a-half makes. After much going back and forth, a committee has come up with 12 "guiding principles" that turns the former us-and-them mentality into just "us." The

board of directors approved it last year and it will be rolled out to the membership in 2014. A concession never acknowledged by earlier IFA leadership is Principle No. 2: "…franchising is not immune to the risk of failure and neither the franchisee nor the franchisor is guaranteed economic success." Another sticky wicket concerns franchisee equity, which these principles support. Franchising has often been compared to the school of hard knocks. It's nice to see that school has a new principle at the helm.

Women's Foodservice Forum searches for new leadership

The Women's Foodservice Forum is all about elevating women leaders. The Dallas-based organization had taken its own advice and elevated one of its most popular leaders to the CEO spot, Fritzi Woods, only to lose her when she died unexpectedly last September. It's not that Woods can't be replaced, it's just trickier to replace a charismatic leader, as the shareholders in Apple know all to well. Roz Mallet, co-founder of PhaseNext Hospitality, a multi-brand franchise company that is a franchisee of Smashburger, Corner Bakery Cafe and Buffalo Wild Wings, is heading up the search committee. She was also on the National Restaurant Association's search committee a few years ago that elevated Dawn Walker into its CEO position (a past 20 to Watch). In the interim, Anna Mason, general manger and vice president of operations, is handling the day-to-day duties for the nonprofit. We're just rooting for Woods' mission—get more women to the table and make sure they're sitting in the chair positions—to continue with the same elegant force.

Darden moves fuel speculation over Red Lobster, Olive Garden

Will Darden franchise Red Lobster, Olive Garden or both? We don't know, and we doubt it, to be honest, but that's not stopping lots of people from asking the question—and nor is it keeping some analysts and activists from pushing the Orlando-based casual-dining giant in that direction. Darden, which typically outperforms other casual-dining companies, has been struggling for the past two years. Its stock price had been stagnant this year until activists began targeting the company—even though restaurant stocks in general have been up this year, with several trading at all-time highs.

Critics say Darden has too many brands (it also owns LongHorn Steakhouse, The Capital Grille, Yard House and several other smaller concepts) and have been pushing for major changes, including a split of the company and even franchising. Darden doesn't franchise in the United States, though it does franchise in international markets. Franchising would likely require a major cultural change. But there is no question the company would sell the Red Lobster restaurants if it decided to take that step.

Private equity firms, flush with cash, on hunt for deals

Sentinel Capital Partners exceeded its $1.1 billion target when it raised money for Fund V, closing last August and becoming one of a handful of quick fund-raising efforts last year, where firms with strong track records were able to close new pools of capital in record time. We're watching Sentinel and many other private equity firms as they look to deploy all that capital raised, and compete with each other to do so. (Nominations are at a record high for the annual Franchise Times Dealmakers project, and we'll reveal the best deals in franchising in our April edition.)

Consider just one strategy, Sentinel's, as a proxy for many. Sentinel is best known for spectacular exits in recent years, most notably its sale of Massage Envy in October of 2012. After fewer than three years of ownership, Sentinel sold to Roark Capital for a 7.1 times return and an internal rate of return of 123.7 percent, according to one of its large investors, California Public Employees Retirement System. "Our existing investors have made good money with us," says David Lobel, Sentinel's co-founder, when explaining why their new fund was well received. Now Sentinel needs to spend all that money, and it like others is searching hard. "We are ambidexterous, in the sense that we are equally interested and willing to invest in both the franchisor or the franchisee," Lobel says, acknowledging he'll be far from alone. One estimate says 1,914 funds are targeting $797 billion worth of deals in franchised brands.

'Ban the Box' gains steam in effort to change hiring

Legislation under consideration in Michigan would "Ban the Box" on job applications that employers use to ask applicants about felony convictions. Meanwhile, 10 states and several cities already have such provisions on the books, and in November, Target, the nation's second-largest retailer, announced it would no longer place that check-off box on its applications. The Equal Employment Opportunity Commission filed two well-publicized lawsuits in 2013 claiming race-based discrimination against Dollar General and BMW Manufacturing Co., and seeks to ensure the criminal history question should not be used as an automatic bar to employment. Supporters of Ban the Box say 65 million people in the United States have criminal convictions, and their prospects for gaining employment after serving time is dismal. Employment attorneys urge caution. "Be aware of whether new business activities put your company in a jurisdiction with a ban-the-box law. If so, be careful to follow the requirements and procedures under the law," warns an update from law firm Bradley Arant Boult Cummings.