

# OPPORTUNITY OUTLOOK



## The Shape of Franchising in 2011

by Mark Henricks

Many franchising organizations report strong growth in 2010, and expect more of the same in the coming year. The quality of candidates interested in becoming franchisees is higher than ever. And, although financing remains challenging, savvy franchisors are finding ways to help individuals get the money they need to become franchisees.

One of the most striking changes is in the candidates for franchise ownership, says franchising veteran Frank Steed, president of The Steed Consultancy in Kerens, Texas. "There is interest from a whole new level of people who in the past would not have looked at franchising," he says.

The new wave tends to be made up of mid-level managers whose corporate jobs have been eliminated. Steed says, which is good in his mind, because they know how to work within a system. But financing remains an issue, especially for new franchisees. Existing franchisees who are already financially strong may have little trouble arranging loans, but start-up franchisees get a frosty welcome, Steed says. "If you need interim financing or a construction loan, it's either not available or they are putting you through so many hoops that it's a lengthy process."

Financing hasn't been a problem for Status Building Solutions, says Chief Executive Officer Dennis Jarrett. The St. Louis clearing service franchise does all financing in-house. As a result, Jarrett says, they don't have to spend time and effort finding franchisees with the net worth and ready cash to get bank loans. "We're able to concentrate on the quality of the candidates," he says.

Franchisees like that. They also like the chance to own a business in a fragmented, fast-expanding industry that is differentiated by its commitment to health and sanitation. "It's a business that ramps up faster than most, and it's recession-resistant," Jarrett says. "In fact, we've had tremendous growth numbers during probably the toughest economic times in our lifetime."

Status has more than 5,000 unit franchises and anticipates growing to more than 7,500 in 2011. "We hope to open 12 to 15 new markets in the USA in addition to development in Canada, Latin America, and Europe," Jarrett says.

Hut No. 8 differentiates itself to consumers as a fashionable clothing resale shop that doesn't look like a resale shop. "The

ambience is specifically designed for teens and young adults," says Marcus Price, CEO of the Zephyrhills, Fla., company. "It's dark and rustic-looking with loud music. It's exactly the kind of store they want to go in and purchase their clothing from. The only difference is we've taken out the expense of the clothing."

To franchisees, Hut No. 8 appeals as a low-cost opportunity. Price says they've kept initial investment low by doing everything from building store fixtures to writing software in-house. "We've brought the price point down so that we can teach anybody to run a successful business," he says.

The first Hut No. 8 franchise opened in 2009, and today five stores are open. "A year from now we should be looking at probably 30 if the growth keeps ramping up like it is," Price says. Most new stores will initially be in the eastern part of the country, but Price ultimately plans to jump to the other coast. "We're expecting a lot of growth in California," he says.



Frozen treat retailer Tasti D-Lite has been jumping into marketing with social media and loyalty programs. Tasti D-Lite was one of the first retail food businesses to connect its loyalty program to social networks, according to Jim Amos, CEO and chairman of the Franklin, Tenn., chain. "As a result Tasti D-Lite has won multiple awards for our TastiRewards loyalty program through our use of IT and social technologies," he says.

Tasti D-Lite's network has experienced solid expansion the last couple of years, so much so, in fact, that the company outgrew its own accommodations. "Due to present growth trends we recently moved to larger quarters here in Nashville that also provided for a larger facility for Tasti D-Lite University where we train new franchisees," Amos says.

Amos sees the credit crunch easing. "While financing continues to be challenging, particularly with single unit developers, we are seeing some signs of credit facilities loosening up and are being creative in assisting qualified candidates," he says. "We see these trends continuing, if not accelerating, in 2011."

DVDNow Kiosks offers a business that can accelerate into a full-time occupation, or generate a stable income working part time. "Our business is a scalable opportunity, meaning that it is possible to start with a small number of kiosks, or even a single unit, and still grow a sizeable business," says Scott Mahnes, CEO of the North Vancouver, B.C., company.

The company's operators have approximately 2,000 DVD rental kiosks, primarily in the United States. DVDNow also has locations in Canada, Ireland, South Africa, Norway and the Netherlands. Mahnes says they are focusing on expansion within the U.S. as well as existing and new international markets.

DVDNow Kiosks has benefited from a paradigm shift in video rental, as customers move away from traditional video rental stores to convenient, budget-friendly kiosks. As a result, Mahnes says, "the demand for our kiosks is up dramatically over previous years."

Seniors Helping Seniors has ridden a dramatic change in the way care is provided for senior citizens. "We have been able to continue to add over 70 franchise partners over the past year and a half, during the exact same time the rest of our economy was shrinking, and to expand our franchise system to over 120 territories," says Philip Yocom, co-founder and CEO.

When it started in 2005, the Reading, Penn., company planned to double in size annually for five years and then add 100 new franchisees a year for another five years. "There's every indication they'll achieve that. 'During our past week, we have actually granted as many franchises as we did throughout our first calendar year,'" Yocom says. Seniors Helping Seniors is targeting the Midwest, the Southwest, and the West Coast in its expansion plans, Yocom adds.

Bojangles' Restaurants, Inc. enters 2011 with a new ad campaign featuring "It's Bo Time" as a call to action. That's one of many moves the Charlotte, North Carolina, franchisee of chicken-and-biscuit restaurants is making, says Eric Newman, executive vice president. Initiatives include a market price study, targeted growth in partially penetrated markets to build advertising presence, and a focus on operations.

"The result so far has seen increasing same store sales and one of the fastest growth rates in the restaurant industry during the last three years and continuing into this year," Newman says. This year Bojangles' is targeting expansion in the 11 states where it operates 482 restaurants, from Washington, D.C., to Orlando and west to Mississippi. "We expect to have 525 restaurants in another year," Newman says.



McAlister's Deli, a quick casual restaurant chain serving sandwiches, soups, salads, and potatoes based in Ridgeland, Miss., offers experienced food service operators a way to diversify and grow in their existing trade areas without oversaturating a market. "It also helps them spread their risk among non-competing brands," says Bill McClintock, senior vice president of development.

Currently, McAlister's Deli has 300 restaurants in 22 states in the Southeast, Midwest, and Rocky Mountains. In 2011, the company anticipates adding 20 to 25 new shopping center end-cap locations. "Additionally, we want to continue to build in non-traditional venues such as airports, hospitals, and college campuses," McClintock adds. "A lot of college campuses and hospitals are looking for better alternatives to food service than they have now."

Tossed, a Fort Lauderdale chain of salad restaurants, offers franchisees a system to achieve high sales volumes in flexible spaces and healthy alternatives for consumers. "Currently many restaurants in the quick service industry are trying to expand their menu options to accommodate the health trend, but not many concepts are really dedicated to providing consumers with what they are looking for -- truly healthy fast food," CEO Eric Schmitt says.

Tossed has five locations in Boston; New York City; Houston; Morrisville, N.C.; and Franklin, Tenn. "In 2011," Schmitt says, "we look to add 12 new locations, focusing on Boston, Washington, D.C., New York, and Southern California."

There's more than one way to go green, of course. Calgary, Alberta-based Fibrenew's leather and plastic restoration

franchises aim to generate a profit while keeping damaged or worn goods out of landfills, while saving customers in the residential, commercial, aviation, automotive, and marine markets money. "Knowing that they can repair and refurbish for a fraction of the replacement cost is very appealing to our customers in all of the markets that we service," CEO Michael Wilson says.

Fibrenew has 192 franchises in eight countries. Plans for 2011 focus on the U.S., where they project 50 new locations. "We will also continue to expand globally, and are currently seeking a master franchisee for the United Kingdom," Wilson says.

After less than a year in operation, dog training and agility franchiser Zoom Room has three locations open and expects to open another 10 or 12 in 2011, according to Mark Van Wye, chief operating officer of the Los Angeles company. Target markets include Seattle, Denver, Portland, Chicago, and New York City.

For potential franchisees, Zoom Room targets animal lovers, often those looking to replace a lost corporate job with a brick-and-mortar business that will be a pleasure as well as a profit. "This business was designed with fun in mind, as something that's genuinely enjoyable both as a client and as an owner," Van Wye says.

As a whole, the franchising industry seems poised to enjoy a successful 2011. The industry is likely to benefit in the coming year from the influx of new franchisees with management experience, consultant Steed reiterates. But franchisers need to understand that these candidates may need special care. In particular, he says, business opportunities that feature lots of direct consumer interaction, such as retailers and restaurants, must realize that corporate managers may not have the customer service orientation necessary to really blossom.

Likewise, potential franchisees will have to be careful selecting opportunities. Steed advises those interested in franchising to seriously evaluate their skills and aptitudes before making a choice. Someone who has little experience or interest in working with the public may be best suited for a business-to-business venture, he says.

"Franchisers will continue to have to be careful selecting franchisees," he says. "But I think there are going to be some really good candidates out there. It should be a great year for good, strong candidates."