Multi-Unit Franchise Fundamentals - 101

Lane Fisher, Fisher Zucker LLC

Paul Plate, Regis Corporation

Peter Hegele, Buffalo Wild Wings

Timothy Britt, LA Weight Loss Franchise Company

Kelly Saxton, Saxton Pierce Restaurant Group
Panelists’ approach to Multi Unit Growth
Kelly Saxton
Saxton Pierce Restaurant Group
Trading As McAllister’s Deli
Dallas, Texas
IFA’s 46th Annual International Franchise Convention
February 25-28, 2006 • Palm Springs Convention Center & Wyndham Hotel
Palm Springs, CA
Peter Hegele
Sr. Director, Franchise Operations
Buffalo Wild Wings Grill & Bar
About Buffalo Wild Wings

- Sports Oriented / Family Friendly Grill and Bar
- Franchising since 1992 / Operating since 1982
- As of January 2006:
  - 375 Units in 35 States
  - 121 Corporate Units
  - 254 Franchised
About Buffalo Wild Wings

• Known for Award Winning Buffalo Style Chicken Wings

• Featuring 14 Signature Sauces and a Full Menu

• Full Liquor Bar with at least 20 beers on tap

• State of the Art Audio / Visual System
About Buffalo Wild Wings
IFA’s 46th Annual International Franchise Convention
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Palm Springs, CA
Tim Britt
Sr. Vice President, Franchise Development
• Large Club amenities in a “boutique setting”.
• Women of all ages
  – Personalized routines
• A Next Generation / Goal Oriented features the “body make-over system”
• Guaranteed results.
  – “Target. Tone. Transform.”
IFAs 46th Annual International Franchise Convention
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L A Weight Loss Centers

- The Program;
  - Unique personalized meal plans with one-on-one counseling which assist clients in achieving easy, effective, affordable weight loss results.
  - Full line of optional Proprietary Bars and supplements which help clients achieve their goals.
LAWL Centers

- 4-7 employees per center
- Simple build out
- 1,200 to 2,000 sq ft, generally in strip malls
- Investment Total $67,000 to $120,000
LAWL Franchise Profile

- As of January 2006
  - 35 Independent Franchise Groups
  - 400 Franchise Centers
    - (Average 12 Centers per Group)
- Franchising since 1998
L A Weight Loss Brand 1998
L A WEIGHT LOSS FRANCHISE

Graph showing the growth of International, Domestic, and Total franchises from 1998 to 2006.
Paul Plate
CFO
Regis Franchise Division
Regis Corporation

- 11,000 + locations worldwide
- Corporate store operator
- Franchisor
- Distributor
- Beauty schools owner and operator
### Franchise Brands

**North America**

<table>
<thead>
<tr>
<th>Brand</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supercuts</td>
<td>1987</td>
</tr>
<tr>
<td>Cost Cutters</td>
<td>865</td>
</tr>
<tr>
<td>ProCuts</td>
<td>181</td>
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<tr>
<td>First Choice</td>
<td>423</td>
</tr>
<tr>
<td>Magicuts</td>
<td>207</td>
</tr>
</tbody>
</table>

**Total:**

- 1987
- 865
- 181
- 423
- 207
Franchise Brands
North America

• Approximately 2,300 franchise salons
• 375 owners
• 6 stores per owner average
Benefits of Multi Unit Strategy

– Market Penetration Strategy
  • Attract Potential Franchisees
– Accelerated Growth
– Reward Productive Franchisees
– Mitigate Failure Rate
– Shareholders (if publicly held)
– Reduction in Training and Assistance
– Operating Marketing Efficiencies
Multi Unit Franchising – Is the Franchisor Ready?

– Infrastructure to Support Multiple Unit Development

– Domestic v. International Activities
Is the Franchisee Ready?

– Pre-Determined Criteria
– What Determines “Expansion” in Your System
– Franchise Agreement Pre-Determined Criteria
Is the Franchisee Ready?

- “Expansion” Document – Area Development Agreement
- Current market share of Brand
- Resources/Existing infrastructure
- In “Good Standing” with Franchisor
- Evaluate
  - Market demographics
  - Real estate opportunities
- Financial
  - Acquisition/Development Capital
  - Borrowing ability
  - Working Capital
  - Current Financial Statements
Is the Franchisee Ready?

Evaluate existing or previous business

– Ownership structure = Franchisor Goals
  • Who is involved and to what extent
  • Background checks
    – Financial, criminal, litigation, References
– Financial Reports, CFO Approval
  • Health of existing business
– Operations, Team Approval
Is the Franchisee Ready?

Evaluate existing or previous business (con’t)

– Check performance metrics of Operations
  • Customer satisfaction
  • Maintaining Brand Integrity
  • Execution of existing business
  • Safety

– Infrastructure for support
  • Ops, Finance, Marketing, HR, QA, Training and Development
Is the Franchisee Ready?

Evaluate the Proposed Business Plan

- For Existing Locations
- For New Locations
- Growth and Development Plan
- Adequate Financing
Is the Franchisee Ready?

Evaluate the proposed Business Plan

- Relationship to existing entities
- Capitalization Plan & Proforma Cash Flow Statements (3-5 years)
  - Existing vs. new vs. combined businesses
  - Check Assumptions
Is the Franchisee Ready?

Evaluate the proposed Business Plan (con’t)

– Organization and Infrastructure
  • People growth / track records
  • Compared to unit growth
– Unit controls
  • Inventory, cash, QA
– Development / Growth Plans
– Marketing Plans
Structuring a Multi Unit Transaction/Legal Structure

Option Agreements / Rights of First Refusal

– Option Agreement:
  • Franchisee is granted the right, without the obligation, to open additional units in exchange for the payment of an option fee.

– Rights of First Refusal:
  • A franchisee is granted a right of first refusal to open additional franchises, on the terms and conditions offered by a third party, or upon the franchisor’s determination to offer franchises within a particular region.
Structuring a Multi Unit Transaction/Legal Structure

Area Development Agreements

– Area Developer commits to opening a particular number of units in a geographic region on a particular schedule.
Negotiating the Transaction

Key Deal Points

– Exclusivity Fee
  • Franchise Fee and Deposits
  • Royalty Rates
– Development Areas or Targets
  • Exclusive vs. Non-exclusive
  • Exclusions
– Development Schedule/Term
– Events of Default
Negotiating the Transaction

Other Possible Deal Points

- Facility upgrades and maintenance requirements
- Acquisitions / Right Of First Refusal
- Renewal rights
- Diversity
- Marketing
- Data transmission and reporting requirements
- Business planning
- Incentives
- Substantial compliance & remedies
- Training
- Real Estate Requirements
- Regulatory Compliance
Disclosure Obligations/Regulatory Compliance

- Separate Offer
- Registration Requirements
Franchise Relationship

• Operations and Support
  – Field Marketing/LSM/Creative/PR
  – Field Operations/HQ Operations Support/Strategic Planning
  – Site Selection
  – Construction Consultation
  – Business Planning/Review/Budgeting

• Training
• Staffing
• Franchisee Participation in Decision Making
  – Groups of Multi-Unit Operators
  – Franchisee Associations
  – Franchisee Advisory Councils

• Encroachment
Franchise Relationship
Operations Support - Benchmarking

• Provide stratified sales and P&L results
  • Sales
  • Income statements and expense ratios
  • Corporate stores
  • Franchise stores
• Provide operations profile based on Corporate structure
  – Supervision/store ratios
  – Responsibilities
    • Store managers
    • Supervisors
    • Franchisees
• Provide administration profile
  – Direct employees vs. service contracts
    • Accounting
    • Payroll processing
Franchise Relationship

Dispute Resolution Procedures

• Franchise Relations Department
• Mediation (IFA Recommended: NFMP)
• Arbitration
• Litigation
Franchise Relationship

• Dealing with Defaults
  – Business Defaults – Control Related
  – Advertising
  – Changes in ownership
  – Unforeseen Delays
  – Defaults Outside of Developer’s Control
  – Creative Solutions

• Creative Remedies
  – Terminations
  – Transfers
  – Modifications
  – Forbearance
Multi Concept Franchisees

Motivations
- Diversification
- Financing economies of scale
- Limited future expansion opportunities
- More control of real estate and market

Operational Issues
- Dedicated personnel
- Training
- Protection of trade secrets
Multi Concept Franchisees

Legal Issues
  – Best efforts
  – Restrictive covenants
  – Tortious interference claims

Drafting
  – Designating a primary brand – new product offerings