



IFA 2018

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**UNIT LEVEL ECONOMICS –
THE CUPID’S ARROW OF FRANCHISING**



OBJECTIVES FOR TODAY'S SESSION:

- Recognize that nothing is more impactful on the franchise sales process or ongoing system satisfaction than strong unit economics.
- Learn that as units open, a franchisor must constantly identify, evolve and attempt to replicate its “highly efficient” unit(s).
- Benchmarking has proven to be the single biggest catalyst for improving individual unit performance and improving the franchise relationship.
- Group Exercise and Discussion.
- Make franchise unit level performance part of your DNA.

Rocco Fiorentino



President and CEO
PrimoHoagies Franchising, Inc.

Founded

- Started franchising in 1992

units, # franchisee

- Opening our 100th store on Feb. 13th

States

- 7 states

System Wide GS

- \$60 MM

Any awards

- Top 1% from America's Most Honored Brands
- Top 25 Food Franchises – Entrepreneur Magazine
- Over 200 “Best of” Awards in all states we occupy



Sam G. Ballas



President and CEO
East Coast Wings Corporation

Founded

- 1996
- Started franchising in 2004

units, # franchisee

- 34 units

States

- 6 states, primarily SE

System Wide GS

- \$52 MM

Any awards

- “Top Food Franchise” 2012-17 from *Franchise Business Review*
- “Future 50” list of the fastest-growing U.S mid-size restaurant chains from *Restaurant Business Magazine*
- “Top 200+” list from *Franchise Times Magazine*
- “Top 200” Food Franchises, listed in the INC. 5000 in 2016, among more



Michael Miller



Chairman and Co-Founder
Brightway Insurance, Inc.

Founded

- Started franchising in 2008

units, # franchisee

- 152 stores

States

- 20 states

System Wide GS

- \$500 million in annual sales

Any awards

- *Forbes Magazine* named Brightway Insurance #1 at <\$150K investment



Gary Robins

SUPERCUTS®

President
The G & C Robins Company

Founded

- Started in 1998

units, # franchisees

- owns 56 Supercuts salons

States

- 3 states, PA, NJ and MD

Any awards

- VP of the Supercuts Franchisee Association
- Serves on the Board of the Coalition of Franchisee Associations



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Group Exercise

East Coast Wings & Grill

2010 Metrics (all reported at 12/31/2010)

Franchising 5.5 years

1996 Founded in North Carolina

2004 Began franchising

\$17.8M System wide Gross Sales

\$1.15M Franchisor Gross Revenue

\$3.4M Franchisor Net Worth

\$0 Deferred Revenue

2 Sold but not

6 Total Franchises sold in 2010

2 # franchises sold to existing operators

\$25K 2010 single unit Initial Franchise Fee

15 open franchise locations

2 affiliate operated locations

9 Total # of employees

\$351K Total payroll

1 person in Franchise Sales (outsourced)

1 person in Finance

2 people in Operations & Purchasing

2 people in Administration

1 person in R&D

1 person in marketing

2 people in the field



Group Exercise

Insert Subtitle Text

- Chart of Account for an Operating Unit in 2010

<i>PetersCreek</i>	
2010	
Total Revenue	\$ 1,340,463.70
Sales Tax	
Service Charges (Tips)	
Net Revenue	\$ 1,340,463.70
Space Expense	
Rent	\$ 67,062.74
Electric	\$ 30,946.85
Gas	
Water/Dumpster/Recycling	
Repairs (structure)	\$ 3,407.74
Cam, insurance (inline)	
Insurance (building)	
Property Taxes	\$ 296.38
Total	\$ 101,713.71
Operational Expenses	
Royalty	\$ 53,571.36
Marketing (National)	\$ 36,792.21

Group Exercise

Insert Subtitle Text

- Chart of Account for the same Operating Unit in 2017

<u>PetersCreek</u>		2017	
Total Revenue	\$	2,172,781.47	
Sales Tax	\$-		
Service Charges (Tips)	\$-		
Net Revenue	\$	2,172,781.47	100%
<u>Space Expense</u>			
Rent	\$	91,320.51	
Electric	\$	23,517.73	
Gas	\$	16,001.38	
Water/Dumpster/Recycling	\$	12,003.08	
Repairs (structure)	\$	2,535.04	
Cam, insurance (inline)	\$	11,726.89	
Insurance (building)	\$	837.92	
Property Taxes	\$	9,315.16	
Total	\$	167,257.71	7.70%
<u>Operational Expenses</u>			
Royalty	\$	87,133.33	
Marketing (National)	\$	40,092.30	
Marketing (unit)	\$	24,533.56	1.1%
Phone/DSL	\$	3,843.62	
Repairs (non structure)	\$	11,632.69	0.54%
English	\$	1,441.84	

Financial Accountability

- What is your strategy for teaching financial accountability and how will that training evolve over the term? How do you make financial accountability part of your corporate culture at initial training, during operations visits and calls and how will you evolve this strategy over time to grow top performers?
- KPIs. Are we collecting and sharing the most valuable Key Performance Indicators (KPIs)?
- How will you use KPIs and industry data to develop brand benchmarks?

Benchmarking

- What does, or should, a franchisor share with its franchisees?
- How often should the brand engage a franchisee for financial and business plans reviews?
- What technology is needed to assure real time collection of benchmarking data in sufficient detail in order to achieve desired growth levels?
- How would you ensure transmission of reliable synthesized real time benchmarking data to franchisees, and simultaneous collect unit level data? How would you hold both parties accountable?
- How can the brand use financial/ ULE data to encourage franchisees to engage, respond or improve performance?

How do you help a franchisee grow?

- What information will help a franchisee change their operating behavior and financial performance?
- What is the right rate of growth for a franchisee?
- How do you evaluate who is ready for expansion?
- Who must the franchisee add to his team in order to operate multi units and when are they hired

Franchisors Infrastructure

- Franchisors Infrastructure

- What tools/modeling assistance does a franchisor provide franchisees?
- Who are the first additions to the franchisors team and when are they hired?
- What functions can you outsource/risks of outsourcing?

Suppliers

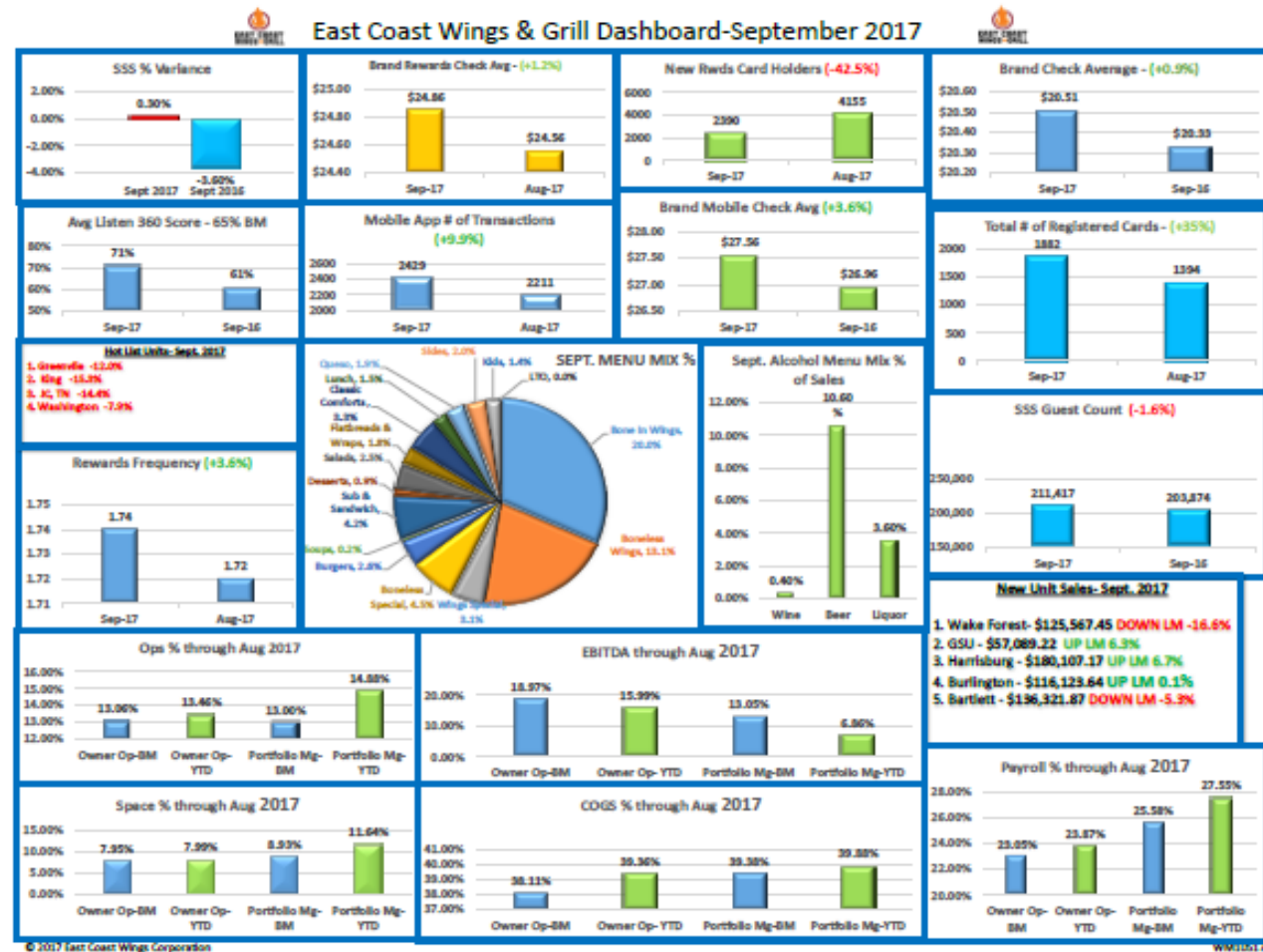
- How often do you negotiate supply contracts and how will you leverage system wide suppliers?
- What data can a franchisor use to hold 3rd party suppliers accountable for unit level costs?

Marketing for customers

- How does the customer acquisition strategy change as the systems grows?
- How do you stay cost effective as you grow beyond markets? How will you leverage digital and print promotional opportunities?
- How can you anticipate changes in millennial spending patterns?

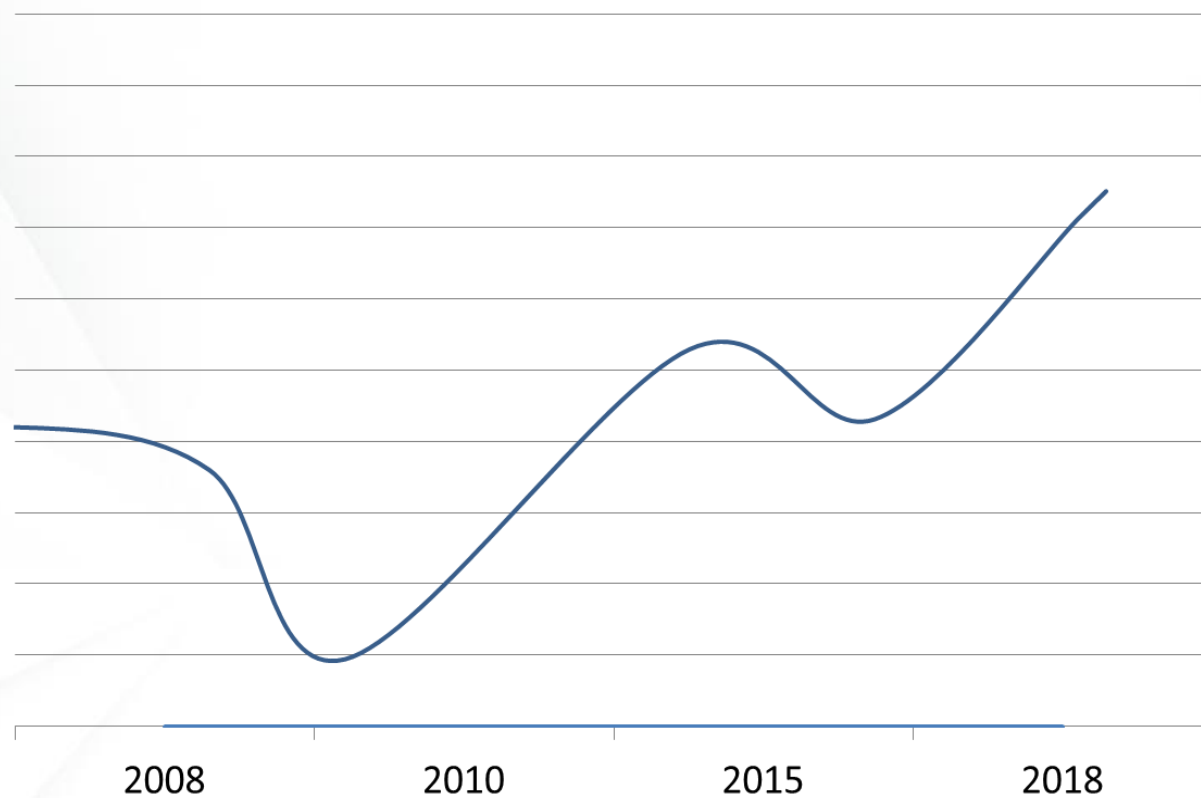
Dashboard

- Use of Technology
- Track
- Benchmark



East Coast Wings & Grill Inflection Points

Inflection Points



CONCLUSIONS:

- Know your KPIs
- Benchmark your KPIs
- Leverage technology
- Make Unit Level Economics part of your DNA