

NEW AND IMPROVED

Franchise Concepts That Embrace Innovation

by Mark Henricks

With more than 735,000 franchise establishments expected to be open in 2012, up nearly 2 percent from 2011, according to the International Franchise Association, the biggest news about franchising is that it has returned to a growth phase after years of flat or declining activity. But that's not the only fresh element on the franchising scene. "There are two things going on in franchising that are new," says Karen Spencer, founder and CEO of Marietta, Georgia, franchise adviser Fran-Systems. "New franchisees are coming into this world for the first time ever. And we're seeing new brands."

Military veterans who have recently left service comprise a sizable percentage of would-be franchisees. Spencer says these new prospective franchisees offer appealing traits, including discipline and experience working within a system. "The problem is they're not coming out with a ton of money," she says. "For franchises to entice them, they waive the franchise fee."

Spencer also sees a new generation of concepts coming. Franchising has always had new brands, but these innovations are targeting the next generation of leaders of family-owned multi-unit franchises. Hotel franchisers have been preparing new offerings for this group for years, she says. Now restaurants are catching up with a wave of creative introductions. "The biggest one out there now is the burger wars," Spencer says. It started with upscale burgers and has now expanded to organic and all-natural brands.

One of the most innovative new concepts in franchising comes in the healthcare sector with The Joint...the chiropractic place, a Scottsdale, Arizona, chain of franchised chiropractic clinics. The Joint's innovation lies not in the care itself, says CEO John Leonesio, but in the way it's delivered to consumers.

Patients can patronize The Joint without an appointment and without any insurance forms to fill out. The Joint is

open on evenings and weekends, and employs a membership model similar to a massage chain, charging members \$49 per month. "It's typically around four adjustments a month or \$12.25 per adjustment," Leonesio says. "That's way lower than chiropractic care usually costs and lower than a co-pay."



Chiropractors also appreciate not having to work with insurance companies. This reduces their paperwork load, which reduces staffing requirements, and allows them to operate out of smaller offices and extend hours without increasing overhead. "With the lower overhead, doctors were profitable very quickly," Leonesio says.

The concept appeals to investors who hire chiropractors to staff the centers as well as licensed doctors who will deliver the care. The Joint just began franchising in April 2011 and has 40 stores open in 17 states, mostly in Texas, California, and Arizona.

"The goal is to have 100 open by end of this year and then 200 open by end of 2015," Leonesio says. And future expansion plans aren't limited by location. "There's really no geographic profile," he says.

The profile of Bojangles' Restaurants has increased significantly in the last year, according to Eric Newman, executive vice president of the Charlotte, North Carolina, restaurant chain. "As a company we're 20 percent larger than a year ago, and as a system we are right at about \$800 million in system sales annually," he says.

What's driving Bojangles' growth, however, is nothing new. That is a quick-service restaurant with fast, friendly service, high-quality scratch-made products including fresh buttermilk biscuits and a distinctive flavor profile that starts with its signature chicken and famous iced tea. "What makes the concept great for 35 years is still making it great," Newman says.

That doesn't mean nothing has changed at Bojangles'. The company has emphasized refining operations even while growing strongly, and has worked to reduce turnover, expand its management base, and fill a few menu gaps. It's also kicked off a new marketing campaign with the help of a new agency.

Bojangles' system stands at 515 units today, concentrated in the 10-state region defined by Washington, D.C., Orlando, and Mississippi. Even as they add 40 more corporate and franchise units this year, that geographical footprint isn't likely to change. "We've tried to be disciplined about not putting in far-flung outposts," he explains. "When you build in existing bases, you tend to build average unit volume of all units."

At Fiesta Auto Insurance, a combination of factors is driving the rapid expansion of the Huntington Beach, California-based chain of insurance and income tax return preparation businesses. One, says Glen Wielandt, director of tax services and franchise business development, is the low investment requirement. "Our franchise fee is \$10,000 and it costs you another \$30,000 to \$40,000 to open and keep it going for a year, at which point you'll probably be at break even," Wielandt says.

Assisting in Fiesta Auto Insurance's success is a dual model, offering both tax return preparation and insurance for auto, home, and business. The combination keeps the office busy year-round, avoiding the strong seasonality of a tax-only business, and both offerings appeal to similar markets of blue-collar, working-class consumers. Fiesta Auto Insurance also focuses on the fast-growing Hispanic market, which Wielandt says is generally underserved when it comes to insurance and tax services.

When it comes to new initiatives, company president John Rost is coming out with a book on the insurance business this year. And Fiesta Auto Insurance is inaugurating management and leadership training classes for its multi-unit operators.

Fiesta Auto Insurance currently has 127 units open in 15 states, concentrated in California, Florida, Texas and New York. Target markets for the coming year include the Carolinas, New Jersey and Pennsylvania. The company anticipates opening 120 new offices during an exceptionally busy 2012 and having close to 250 offices open at this time next year.

Guests at Lenny's Sub Shop can anticipate being well fed by servings that pile a half-pound of meat and cheese on a regular size sub freshly prepared in front of their eyes. "The guest sees not only the theater of us slicing the sandwich fresh for them, they see the quality meats and cheeses going on their sandwich, and they get things cooked, not reheated, to order," says Bent Alvord, president of the Memphis-based chain. "It really accentuates the food experience."

Because the majority of Lenny's sales occur during the day during the regular workweek, franchisees can expect to be working shorter and more normal hours than is the case with many restaurants. "For someone coming out of corporate America, that's really appealing," Alvord says.

Lenny's has been innovating with a reward program and in the mobile, online, and social marketing arenas. "We have iPhone apps, online ordering and a really strong Facebook presence," Alvord says. "Our recent campaign increased our Facebook audience by 20,000 fans."

Lenny's has approximately 150 open units, primarily located in the Southeast. "We hope to have close to 175 shops by the end of 2013," Alvord says. "We're backfilling a lot of the core market and continuing to increase density. We're also expanding throughout the country and, for the right international deal, we'll start taking the brand across the seas."

After building a strong base throughout Oregon, Café Yumm! is poised to take its brand outside its home turf. The company was founded by Mark and Mary Ann Beauchamp in 1997 and has established itself as a place offering unique food notable for its proprietary sauces and organic content. The signature dish is its Yumm! Bowl, with organic brown rice and organic black beans layered with

a special sauce and topped with organic salsa, yogurt, cheddar cheese, black olives, tomatoes, cilantro, and choice of all-natural chicken breast, tofu, or tempeh.

Café Yumm! has also distinguished itself as a business for consumers and would-be franchisees who want to be responsible stewards of the environment and the communities it does businesses in. In 2011, Café Yumm! opened the first LEED Gold Certified For Retail restaurant in Oregon, and the first in the country solar-powered electric vehicle charging station at a restaurant. The mayor of Eugene also honored the company for environmental practices including renewable energy use, building table tops from post-consumer paper, and composting food waste.

Today, Café Yumm! has 11 locations in six Oregon cities including Beaverton, Bend, Corvallis, Eugene, Portland and Springfield. Among its plans for the near future are increasing the use of organic foods -- which already exceeds 50 percent -- and expanding into Washington and Northern California.

The considerable amount of innovation among franchisers has been matched recently by some new initiatives from the International Franchising Association, according to Spencer. In particular, she pointed to an April 2011 meeting between franchisers and lenders and other members of the financial services community, to address the financing needs of the franchising industry.

Obtaining credit has been cited as one of the biggest obstacles keeping potential franchisees from setting up their own businesses, and Spencer says last year's meeting, which is scheduled to be repeated in 2012, showed signs of being an effective tool for addressing the issue. It's also completely new. "That's something I haven't seen in my 30 years in the industry," Spencer said. "It was an unprecedented program."

The multitude of currents of innovation in franchising has observers hoping for an extended return to the years of strong growth the industry posted before the latest recession. Improved concepts crafted to appeal to both consumers and a new generation of franchise leaders, as well as looser credit, all promise to help make that vision come to pass.

"When you bring all these things together, franchising is turning in many good ways that blew me away last year. I didn't think all those things would come through in 2011," Spencer says. "I'm excited for 2012. It's all coming together for the future of franchising and that's very exciting."