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# Multi-Unit Franchisee

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BY EDDY GOLDBERG

# Special Operations

## FRANCHISING IN A STRANGE LAND

**O**PENING FRANCHISE UNITS IN NONTRADITIONAL locations has been the domain of specialists—but not anymore. With the economy still slumping, lending still tight, and suburban expansion at a standstill, many multi-unit franchisees are exploring the viability of sites such as airports, hotels, colleges, senior centers, highway rest stops, hospitals, military bases, and more.

One of the great attractions of a nontraditional environment is the captive audience, a predictable level of built-in customers, making ROI calculations one step less uncertain. At an airport, for example, the number of flights at a gate should guarantee a minimum number of travelers looking for anything from a quick snack or leisurely sit-down meal to a book or batteries for their electronic devices. At colleges, you know the population; at hotels the guest rate; at senior homes, the number of residents.

We spoke with four multi-brand franchisees—as well as 80-year-old George Nadaff, best known for developing Boston Chicken/Boston Market and sharing in its record-setting IPO in 1993. He's also been a franchisee, started several other brands, and is a longtime innovator in the world of franchising. All agreed that sales generated at nontraditional sites are higher than in streetside and mall locations, but so are the costs and the risks—and the rules of the game.

Today, as chair and CEO of Boston-based UFood Grill, Nadaff says he started his newest concept with traditional locations in mind. But when the economy tanked and the banks stopped lending, he says it was foolish to stick with that model—especially after he began receiving inquiries about placing the brand in airports.

Nadaff says he “caught a break” when people from Boston’s Logan Airport ate in his restaurants downtown and gave him a call, asking if he could put one in the airport. That’s when he started considering the viability of non-traditional locations. Subsequent calls from

experienced multi-unit operators also helped to change his thinking. Today he’s pursuing nontraditional sites.

“The idea of working in these nontraditional spaces, from my point of view, was so totally different from what I’d been doing for years, opening up in suburban markets.” He says UFood is now focusing on nontraditional locations, working with airports and submitting RFPs throughout the country. Nadaff says he’s been negotiating with Hudson News, as well as looking at hospitals, travel plazas, casinos, even a large construction company, and that deals will be signed imminently. “It’s been really quite a phenomenon for us,” he says.

One tremendous advantage of dealing with the concessionaires who operate at airports (or colleges, hospitals, rest stops, or arenas, for that matter) is that funding is not dependent on the goodness of lenders. Says Nadaff, “These concessionaires all have bank accounts—you don’t have to worry about getting money from the SBA.”

### Free market(ing)

“Franchise companies in fast food or casual dining have sought to be in these nontraditional markets,” says Samir Mashni, vice president of business development at Midfield Concession Enterprise, which operates about 25 brands in airports from

its base in Romulus, Mich., including sites in airports in Philadelphia and Dallas, with new locations in the works at airports in Newark, Cleveland, and Boston. “In an overall sense they want to be there because it’s great for exposure, and great for revenue,” he says.

“I used to own KFC stores in Boston,” says Nadaff. “Every time we open up in an airport, millions of people get to see the brand, and a percentage of them will buy the food. In the old days, when I opened in suburban markets, do you know how much money I had to spend to get customers in the store? I don’t spend a nickel at an airport!”

Built-in traffic not only eliminates the need



George Nadaff

to spend on advertising in that venue, it also provides a platform for brand awareness seen by all passersby. "With 700 million people in 20 to 30 airports, what better way to brand your foods?" says Nadaff. When banks start lending again, he says, UFood will be well-positioned for expansion, mostly through area development agreements.

However, it takes a different mindset and skill set to operate successfully in a nontraditional location, especially in airports where airport authorities and third-party concessionaires set the ground rules and hold the power of approval. Then there are the environmental and operational differences.

"Space is a major change, and design is a major change," says Mashni. "The airport or the landlord dictates the space and some of the design requirements." Taking a footprint of 3,000 or more square feet and trimming it into 800 to 1,000 square feet is a typical challenge. Inventory, staffing, and supplies are others.

#### **Pay (more) to play**

Compared with traditional sites, says Mashni, airport rents "are extremely higher." And operationally, you must manage peaks and valleys in customer count based on flight patterns. The cost of build-out is also higher at an airport. Mashni says build-out can cost 50 to 75 percent extra because of labor unions, post-9/11 security that increases the cost of construction equipment and material, and because only a limited number of construction workers are authorized to work inside airports.

Gina Puente, who began operating at DFW with her father in 1991, agrees. "The cost at an airport is extremely high," says the CEO and co-founder of Dallas-based Puente Enterprises Inc. Where it costs about \$75 to \$125 per square foot on the street, at an airport the comparable cost is about \$400. Also, she says, the building materials are dictated by the airport authority, you need an architect who knows the airport environment, and the contractor must be approved by the airport authority. And security rules dictate that build-out must occur at night, slowing the process and adding costs.

"Everywhere you turn there are increased costs and fees," she says. Before 9/11, franchisees could order up an 18-wheeler and leave it at curbside to unload, she says, but now she needs two people on every delivery, there are gas and security surcharges, and more. "Everywhere you turn you get dingd for new fees."

#### **Captive audience**

Even with a captive audience, it's good to remember there are no guarantees in life—or in business. In a slow economy,

spending also slows down, says Mashni. And from the landlord's perspective, critical figures in negotiating the deal, such as the number of daily travelers, were based on older models, he says, before the recession. Since then, he's seen reductions in both airline schedules and the number of flights. Some airports have seen double-digit drops in the number of travelers, and those who are still traveling tend to have less disposable income, he says. But the terms of the original contract still apply.

The flow of travelers is different from street-side operations, agrees Puente. And with improvements in tracking flight delays online, she says, travelers are no longer stranded as long as they used to be waiting for planes to take off. "Everyone gets the information and doesn't head to the airport. That extra margin has diminished," she says.

Then there's the unexpected big hit: At DFW, where she operates her franchises, United moved to another terminal last December, reducing her traffic by about 45 percent. "You can't control that," she says, "where on the street you can ramp up marketing."

#### **Limited options**

Michael Ty was also affected—even more severely—by the fortunes of the airline in the terminal in which he operates at McCarran International Airport in Las Vegas. His company, Hospitality Culinaire Inc., has operated a TCBY there since the mid-'90s, which he co-branded with a Pretzelmaker in 2005.

"If you rely on a specific airline, which my terminal has, it has had a declining emplanement of almost 75 percent," he says. Where there were once more than 160 flights every day, it's now down to 36, says Ty.

That's another difference from locating in a mall, where you can negotiate lease terms for reduced rent if an anchor tenant pulls out. However, the equivalent at an airport has not historically been part of the deal.

"I don't think HMSHost or the Department of Aviation thought we'd go into a decline as we did, so there was no thought given to that," says Ty. "But because of the great relationship I've had over the years with HMSHost, they've given me a kiosk in a different terminal to displace the revenue loss." It's a grab-and-go with high traffic, selling premade sandwiches and drinks he buys from HMSHost. One semi-saving grace: "Even though my emplanements have dropped, in the course of a week there still are 5,000 airport employees who have to eat every day."

Next February, he says, if construction at McCarran goes as planned, he'll open a new franchise concept. In another difference from choosing a brand to operate in a more traditional location, HMSHost has limited him to opening a smoothie-



**Samir Mashni**



**Gina Puente**

type concept at the location they've offered him. "They gave me the three brands to choose from." He's now in negotiation with all three.

Before co-branding with Pretzelmaker in 2005, Ty had tried to open an Asian food concept and ran into a brick wall. After about 10 years, his TCBY sales were stagnant. "I couldn't increase sales and draw more business," he says. However, the airport authority said he couldn't go with an Asian concept because the location was designated for an ice cream/dessert frozen concept. "I said sales were declining and that I wanted to do other things. They came back and said, 'You're part of Mrs. Fields,' so Pretzelmaker/Pretzel Time came up." He chose Pretzelmaker.

"I'm a subtenant of a master concessionaire at the airport, HMSHost," says Ty. As the master concessionaire, HMSHost must ensure that whatever concept he puts in doesn't cannibalize other, similar products. "HMSHost gets the approval from the airport authority. If they thought it was a doable concept, we'd both go up and pitch it."

On the revenue side, he says, co-branding has worked out well. Adding pretzels and coffee, he says, increased his revenue initially by almost 400 percent from what he had been doing. "It gave us a better venue and some extra items," he says. It also helped him with day parts, since the airport authority required him to be open in the morning—not a good time for selling frozen yogurt. And to balance the day parts from a hiring perspective, he has cross-trained all his staff. "Every single employee knows every single position, from the register to pouring yogurt to making pretzels."

#### Personnel problem

"Staffing is a lot more difficult to maintain than on the street," says Mashni. "There are security issues, you have to park a mile away and shuttle into the airport, pass through security, work, and shuttle back to your car and leave."

Also, says Ty, it can take an additional two to three weeks from the hiring date to start time because of required background checks from the TSA and DHS—plus training time. And depending on the airport, wages can be higher, and often are. In Las Vegas, he says, the presence of the Culinary Workers Union boosts wages to almost double the minimum, plus payments for health and benefits to the union.

Long-term, however, Ty is optimistic about his business prospects. As president of the American Culinary Federation (ACF), the nation's largest chef's federation, his perspective goes far beyond pretzels and smoothies. He also was executive chef at Caesars Palace and the Desert Inn in the 1990s. In his travels around the country as ACF president, Ty says he sees people still spending money to eat out. "I believe it's still high, though it has been curtailed." However, he adds, with families today relying on two incomes, there's less time to cook, and the



Maria Cunanan and Michael Ty

declines in consumer spending for food have been less severe than in other sectors.

#### Build to suit

Rob Lewis was co-owner of a Best Western Hotel & Conference Center in Brandon, Fla., when the in-house restaurant closed. Nick Vojnovich, president of Family Sports Concept, franchisor of Beef 'O' Brady's, stopped in to ask about locating a Beef 'O' Brady's there. Lewis teamed up with Rob Wolfenden, an experienced restaurant operator, who assembled a management crew, and after some discussion with Vojnovich about adapting the concept to the space, they went ahead and opened in September 2008.

Vojnovich, he says, took a leap of faith to put a Beef 'O' Brady's in a nontraditional environment. So did Lewis and Wolfenden. "He threw out some hypothetical numbers it might be able to do. We've exceeded them, rewarding his faith with operational success," says Lewis. And it's paying off handsomely.

"He allowed us to be creative," says Wolfenden, "to stick with the core and mold the venue to what the demographics demanded." For example, they were the first location to have a full liquor bar and ambient background music, a departure from the standard Beef's. "That gave us a competitive edge," he says.

Vojnovich's willingness to innovate and adapt to nontraditional requirements and environments has played a large part in the recent expansion of Beef 'O' Brady's into hotels and resorts in recent years. "It's smart to allow the restaurant to flex," says Lewis, who describes the relationship with Beef's as "a well-managed marriage between the two."

#### Host or guest?

At their Best Western, Lewis and Wolfenden are able to make changes quickly, since they are both landlord and franchisee. A year later, however, when they opened a second Beef's at a Holiday Inn in Gainesville, they found themselves in a new situation. As lessees, they are subject to landlord approval for any changes—and must also adapt to different operational requirements. That demanded some careful negotiations going in.

"We had a very protracted lease negotiation to protect ourselves as much as we could," says Lewis. While negotiations at times "tried the patience of both sides," he says both parties stayed focused on the same thing: "to maintain the ultimate goal to increase revenues."

Other issues also came into play. For example: Would maintenance of the space be the lessee's obligation or the landlord's? Who pays for maintenance of the refrigeration equipment, parking lot, or air conditioning (essential in Florida)? Who delivers to guest rooms, and who picks up the trays afterwards? When the hotel is full, where do restaurant visitors park? Hammer it all out in writing in the initial negotiations, Lewis advises, since the landlord's representative could change

before the lease expires.

On the other hand, at their own hotel, says Lewis, "We are both landlord and tenant, and it's easy to get things done. In Gainesville, we have to ask permission. We have to respect the terms of the lease and respect the landlord, who is the general manager of the hotel."

At their Best Western, Lewis and Wolfenden have opened a second brand, the American Pie Pizza Company, allowing guests to stay at the same location and eat at two places. "We became our own competition—it's a nice mindset," says Wolfenden.

And it helps to own a piece of the pie, too. "It's a smaller franchise system based in Orlando. We're a principal partner," says Lewis. "It's very compatible with Beef's." They also plan to open one in Gainesville—something they negotiated as an addendum to their lease at the Holiday Inn. He says American Pie provides the same flexibility as Vojnovich has done, giving them the ability to adapt the franchise to the needs of the location.

"In the long run, we're in the hospital-ity business. We have to take care of the guests and be a good neighbor with the host," says Lewis.

Going nontraditional is not an all-or-nothing proposition. Now, with two Beef'O'Brady's operating in hotels, Lewis says, he's opening a third restaurant, in a Deltona, Fla., shopping center where a Beef's had closed.

### The money thing

Operating in a nontraditional site often means going beyond the standard franchising and leasing agreements. "Each one of our leases in our locations we've had are very different," says Lewis. At the Gainesville Holiday Inn, he says, "We don't have a fixed lease rate." Instead, they use a floating rate based on revenue, with a minimum, or floor.

The cost of supplies can also enter into the profitability equation. At the Holiday Inn, the agreement mandates they carry certain brands not normally used in a Beef'O'Brady's. The hours also are different, requiring both staffing and menu changes: they must be open early for breakfast, and provide three meal periods 365 days a year to hotel guests. "Even if we do a major renovation, we have to provide an alternative to guests," says Lewis. At their Best Western, they serve breakfast in the lobby, not the restaurant, and close the restaurant on holidays.

### Too much space!

While space is at a premium at airports, Lewis and Wolfenden faced the opposite problem: a traditional Beef's is about 2,500 square feet, and their space at the Best Western was 5,000. The challenge for them, says Lewis, was "How do you preserve the small family atmosphere in a bigger box?" The ceiling also was higher, so they built an upper level to preserve the feel—and received a lot of support, enthusiasm, and encouragement from Vojnovich.

"Nick said, 'I can work with everything here and tell you how,'" says Lewis. "His team did the same thing in the Gainesville location. He said, 'Use everything we can and add to it.'"

Puente faced a similar problem at Parkland Memorial Hospital in Dallas County, where she submitted an RFP, competing with, among others, McDonald's which had operated there for two decades. After nearly 20 years operating at an airport, it was her first foray into hospitals—and she won.

"The daunting thing was that McDonald's was in there 20 years. We went head to head. We had two good concepts, which we had opened in DFW." She paired the health-oriented menu of UFood with a new brand, Urban Taco, a Mexico City-style taqueria. Urban Taco, which had only one location at the time, in Dallas, was flexible, allowing Puente to hire a nutritionist to tweak the menu for the hospital. "We asked the owner and he said okay."

Nadaff also was helpful in winning the bid. Competing to win the RFP at Parkland, she says, "He saw it was a great opportunity for them," and supported the

idea of second brand as a way to win the bid. And he was flexible as well in the agreement he signed with Puente.

"We pursued a licensing agreement, versus a franchise. That enabled us to be a little freer than a straight franchise agreement," she says. That also gave UFood the ability to vary its standard offering to conform to the health-oriented requirements in the RFP.

"George Nadaff gets it," says Puente. "I've worked with many others who don't. If the operator is successful, they're going to be successful."

However, the site had a unique footprint: 8,200 square feet (at one point the largest McDonald's in the U.S.) with a lot of seating and an upstairs section. Winning the bid presented her with the challenge of fitting both a UFood and an Urban Taco into the existing space. "The kitchen was made for just McDonald's. It was a shoehorn puzzle how to do the cooking stations for two concepts. We also had to figure out the ebbs and flows of traffic in the hospital."

Once that was nailed down and things were humming along, the hospital threw her a curveball, though not entirely unexpectedly. When the hospital exercised its contractual option to have food served 24 hours a day, Puente had to readjust her operations. "They asked us to do it in January. The nurses take breaks at 2 a.m.," she says, and she had to staff up to serve them.

So, is it worth it? After starting out in 1991 helping her father operate at DFW, Puente says she now is "reevaluating everything. Things have changed over the last 20 years. It was a great opportunity 20 years ago. You have to make sure it's worth the ROI, the sweat equity, the way of life. You have to have a strong constitution to operate in an airport. It can be a great opportunity, and has been for myself and my Dad." Now she's recalibrating see if it's the best thing going forward. ■



**Beef'O'Brady's franchisee partners Mike Brooks, Chris Lewis, Jimmy Mayberrie, and Rob Wolfenden.**