

## **Searching for Tomorrow's Franchisees**

Franchise sales strategies today are more sophisticated and varied than ever before--as are the prospective franchisees they target.

*By Lane Fisher and Cheryl L. Mullin*

In the past, franchisors relied principally on direct mail solicitation, classified advertising, and national and regional trade shows to generate franchise sales leads. Prospective franchise candidates would then meet with the franchisor's in-house sales people or franchise brokers to discuss the business opportunity.

Not so long ago, many prospects were the victims of corporate downsizing who were involuntarily pushed into the market for business opportunities and alternative employment. Today's prospects often are more educated and have access to more capital and better professional advice. Franchise investments are scrutinized and evaluated against comparable business opportunities, competing alternative employment options and robust returns in capital markets. In order to survive into the next millennium, franchisors must find new ways to reach and attract qualified candidates.

Today's franchisors seek to capitalize on customer loyalty by marketing their franchises to retail customers at the check-out counter and electronically through Internet sales. Franchisors also get leads through referral sources and by presenting their franchise opportunities at private trade shows and franchise information seminars. These programs feature a limited number of business opportunities in a low-pressure, comfortable atmosphere, with more intense follow up on site during the days immediately following the event.

### **In-Store Solicitation and Internet Sales**

Some franchisors target retail customers as potential franchise candidates. For example, GNC Franchising, Inc., the largest specialty retailer of vitamins, herbs, food supplements and other health management items in the United States, attracts most of its leads through in-store solicitation and through Web site advertising. According to Senior Vice President and General Manager of Franchising Russ Cooper, nearly 100 percent of GNC's franchisees were regular GNC customers and were genuinely interested in fitness, health, nutrition and diet before purchasing a GNC franchise.

Because operating a GNC store requires strong personal commitment and belief in the company's products, GNC markets franchises primarily to single unit operators. It provides franchise information through brochures located at retail store cash register wraps and via its Web site, where it also markets GNC products. According to Cooper, franchise brochures generate approximately 1,000 inquiries per month, which typically result in a small percentage of franchise sales. GNC's Web site, says Cooper, generates approximately 150 leads per month but results in two to three franchise sales, providing the most cost-efficient marketing method under a cost-per-award analysis.

Manhattan Bagel Company, Inc. also originates a large number of leads through its Web sites - Manhattan Bagel, New World Coffee and Willoughby's Coffee (a coffee roaster purchased by New World). These sites offer franchise information and instruct prospects to submit their financial qualifications online to simplify and accelerate the qualification process and reduce the costs of mailing and printing.

Rocco Fiorentino, Manhattan Bagel's vice president of business development, observes that the market for franchise leads is as good now as it has ever been and reports current franchise inquiries of 50-80 per week. "Statistically, Internet leads are not as well qualified as other leads, but the cost of obtaining such leads is low," Fiorentino reports. To further reduce sales costs, and in order to reach a greater number of candidates per presentation, the company has adopted a bimonthly open house featuring breakfast for 20 to 50 people, followed by a two-hour presentation and tour of Manhattan Bagel's headquarters and Bagel University Training Center.

### **Franchise Referral Sources**

Referral sources also provide a pool of qualified franchise candidates. For example, FranNet, a franchise referral network with approximately 60 offices located in North and South America, obtains detailed information about each candidate, while providing the candidate business counseling and advice. According to FranNet member Steve Rosen, "The old way of selling franchises through trade shows, brochures and print ads doesn't work as it has in the past. Franchisors need to find more non-traditional ways to sell franchises because they are selling to non-traditional buyers."

### **Building Brand-Name Equity**

Some franchisors share the philosophy that building brand-name equity also increases the marketability of the franchise. GNC, for example, offers its proprietary products to consumers through a "tri-distribution" method, that is, through franchised stores, company-owned stores and via the Internet. According to a January 1999 joint press release, GNC also recently entered into a strategic alliance with Rite Aid Corporation, which contemplates Rite Aid hosting full-line GNC stores within 1,500 of its stores across the country. The two companies also plan to develop a new line of pharmacy-endorsed vitamins and nutritional supplements, which will be available through all company-owned and franchised GNC locations and Rite Aid Stores.

GNC believes developing new products and increasing the customer base for its products ultimately benefits franchisees in the form of increased retail sales. GNC franchisees will also benefit directly from Internet product sales. According to Cooper, GNC will share with franchisees a portion of the sales derived from the Internet by prompting the Internet customer to identify a GNC store which he or she might shop at, then crediting a portion of the sale to that store.

Manhattan Bagel is also building brand-name equity by attacking non-traditional venues. It currently has license agreements with several regional supermarket chains, pursuant to which

space is subleased to Manhattan Bagel or Manhattan Bagel franchisees. In addition, Manhattan Bagel continues to target military business and has licensed the Army and Air-Force Exchange Service to operate Manhattan Bagel stores on military bases.

These non-traditional means of expansion, unlike single unit sales, allow for a perpetual growth strategy which, to the extent successful, generates its own future business. Manhattan Bagel also pursues locations in colleges, universities and convenience stores. Collectively, these non-traditional developments are expected to account for more than 50 percent of Manhattan Bagel's growth in the next several years.

MAACO Enterprises, Inc., franchisor of more than 550 MAACO Auto Painting & Bodyworks Centers, is also working to build its brand name equity and to attract qualified candidates by changing the image of its centers. According to Vice President of Franchise Sales Bill Chaffee, "The ideal MAACO franchisee is well-educated and has typically held an executive or middle-management position." To make a MAACO franchise more attractive to this type of candidate, says Chaffee, "MAACO is updating its centers to provide a more retail-oriented appearance and consumer friendly environment where customers feel comfortable bringing their families." According to Chaffee, new MAACO centers may open in retail areas as well as industrial or warehouse districts.

In addition to refining its image, MAACO has also increased in-house sales efforts and is spending more time with candidates, providing information and answering questions. Recognizing that a franchise sale is only the beginning of a long-term relationship, MAACO looks to create partnerships with well informed and knowledgeable franchisees, says Chaffee, and "strives to provide an atmosphere where franchisees will be happy for the next 15 years."

### **Private Trade Shows and Seminars**

Franchisors also organize their own private trade shows where they can present their opportunities to target audiences in controlled settings. Late last year, more than 40 candidates attended The New England Franchise Opportunity seminar, a privately organized trade show which took place in Woburn, Mass. The show featured a group of nine diverse franchisors including The Southland Corporation, MotoPhoto, Mail Boxes Etc. and Quizno's, and a representative of Business Lenders, an SBA lender, who spoke to the group about available financing methods.

According to John Steczynski, franchise recruiting manager of The Southland Corporation (franchisor of 7-Eleven convenience stores), the show was "an information-gathering session where interested people could obtain general franchise information and speak directly with major franchisors. It also provided franchisors the opportunity to present their programs and meet with interested candidates one-on-one."

Similarly, in an effort to capitalize on its historically high closing rate in personal meetings, Rita's Water Ice Franchise Corporation recently began hosting franchise informational seminars

in areas targeted for future growth. According to founder and CEO Bob Tumolo, "The company has historically experienced a tremendous lead flow due to its high acceptance at the retail level; however, very few of our leads result in initial meetings." Although franchisee-recruitment advertising posted at retail locations sparks consumer interest, "the difficulty," says Tumolo, "is justifying in a single telephone conversation the initial investment necessary to open what is typically viewed as a seasonal business."

Rather than trying to motivate prospects to travel to Rita's headquarters in Philadelphia, Rita's sends five or six of its sales, operations and real estate professionals to regional sales seminars to explain the process and investment figures. "The informational seminar gives us the opportunity to maximize the number of face-to-face meetings and to increase subsequent sales." According to Tumolo, the seminars generate approximately five to ten personal meetings, which are typically held immediately following the seminar.

### **Putting it all Together**

To sell franchises, franchisors need to be conscious of how and where their leads are generated, and the percentage of leads that mature into franchise sales. Franchisors also need to stay competitive in their core business by increasing brand name equity through new product development, co-branding and other creative licensing arrangements, all of which make the franchise opportunity more attractive to potential candidates. Where all of these elements are in place and the franchisor reaches its target audience, franchise sales will naturally result.

## **NASAA Announces Y2K Disclosure Requirement**

*By Lane Fisher and Cheryl L. Mullin*

The much debated issue of whether or not a franchisor should or needs to incorporate a Y2K statement is now over. On March 17, 1999, the Franchise and Business Opportunities Project Group of the North American Securities Administrators Association ("NASAA") finally issued a statement announcing that franchisors would be required to disclose potential Year 2000 computer problems. In its short release, NASAA stated that franchisors "must disclose potential Y2K problems under the Uniform Franchise Offering Circular Guidelines [using] the disclosure format adopted by the 14 [registration] states." While some franchisors have already elected to make voluntary Y2K disclosure and/or address the issue in their audited financial statements, it is now clear that a disclosure must also be contained within the franchisor's offering circular.

Pursuant to NASAA's statement, each franchisor will be required to include information about the franchisor's preparedness for addressing potential Y2K problems and its potential impact on prospective franchisees who are contractually required to maintain and update a computer system under the franchise agreement. Additionally, if franchisors anticipate that their franchisees will encounter Y2K related problems with suppliers, landlords, financial institutions or other third parties, NASAA recommends that such information also be disclosed.

The NASAA release parallels a letter issued on December 30, 1998 by the Rhode Island Securities Division (the "Division"). Until Rhode Island issued its letter late last year, NASAA and state agencies were silent on the issue. The Division was the first franchise-related state agency to recognize Y2K as "a material fact requiring disclosure under the Rhode Island Franchise Investment Act." Instead of interpreting existing disclosure requirements to include Y2K related information, however, the Division imposed Y2K specific disclosure requirements similar to those mandated by the SEC. In transactions subject to the Rhode Island Act, franchisors must now disclose their "awareness, assessment, renovation, validation/testing and implementation: of Y2K programs, including the possible effect on existing or prospective franchisees." Until the release by NASAA, some franchisors believed the Rhode Island disclosure requirement to be overly extensive. However, practitioners must now concede and incorporate an appropriate Y2K disclosure.

NASAA's release has taken the guess work out of whether or not a disclosure statement should be incorporated in a franchisor's offering circular. The question regarding the length and scope of the specific information to be disclosed, however, will depend upon various factors including the type of business being franchised, the extent to which the business relies on its internal computer system to maintain operations and the extent to which it relies upon equipment, or product or services provided by third parties, which may be affected by Y2K issues. Also, a more detailed disclosure will be necessary if proprietary technology mandated by the franchisor and used by the franchisees is a component of a franchise system. If, on the other hand, the

franchisee uses off the shelf products, a more limited disclosure, which is purely cautionary in nature, would be appropriate. Franchisors who have issued a Y2K readiness disclosure should also consider incorporating a summarized version of such disclosure.

NASAA's release concluded by noting that franchisors who fail to adequately disclose material Y2K information will be at risk for private litigation as well as law enforcement action.