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franchisee satisfaction report

report | QSR Franchises

June 2008



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### Note to Prospect Franchise Investors:

This report IS NOT intended to be an endorsement or recommendation by Franchise Business Review. Our franchisee satisfaction survey reports are designed to aid prospective investors in educating themselves about franchising. This report IS NOT intended to replace the typical due diligence process that any investor should personally undergo prior to making an investment decision.

## FranchiseBusinessREVIEW Driving Better Results.

### Hungry for Franchise Success

The quick service restaurant (QSR) business is a market segment each of us can relate to. We all have to eat, right? Whether you're a fast-food junkie or just an occasional eater, QSR's are as American as baseball and apple pie. From Main Street to Wall Street, and just about every highway exit and rest area nationwide, QSR food options have exploded in recent years. The QSR segment is one of the most popular and trendy in all of franchising.

From a business investment perspective, QSR's can be a little overwhelming. Rising food costs, soaring competition, high employee turnover, long hours, and razor-thin margins create huge operational challenges. Running a successful QSR business requires passion, experience, hard work and a lot of luck. As a whole, franchisee satisfaction in the QSR sector runs extremely low. That being said, a handful of QSR franchise concepts have managed to buck that trend and have created a successful and very satisfying investment opportunity for their franchisees.

Our QSR Top 10 includes Nathan's Famous, Bruegger's, Culver's, CiCi's Pizza, Hungry Howie's Pizza & Subs, El Pollo Loco, Salad Creations, Simple Simon's Pizza, Marco's Pizza and Uno Chicago Grill. These companies have all cracked the code on what it takes to build a successful, profitable partnership with their franchise partners.

This QSR report represents the most comprehensive study of franchisee satisfaction ever completed among QSR franchise owners. We surveyed 2,600 franchisees from over fifty of today's leading QSR franchise brands. We hope that you find this information both interesting and useful in your franchise research. If you wish to learn more about buying a franchise or you would like to receive a franchisee satisfaction report on a specific company, please visit our website at FranchiseBusinessReview.com or call us at 866-397-6680.

Happy Franchising!

Eric Stites
Founder and President
Franchise Business Review

### FBR QSR Top 10

Franchisee satisfaction is one of the most critical factors that any prospective franchise buyer should consider before investing in a franchise system. In the QSR sector, the following restaurants have received the highest satisfaction ratings from their own franchisees:

- Nathan's Famous
- · Bruegger's
- · Culver's
- CiCi's Pizza
- Hungry Howie's Pizza & Subs
- El Pollo Loco
- Salad Creations
- Simple Simon's Pizza
- Marco's Pizza
- Uno Chicago Grill

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## franchisee satisfaction study 2008 retail franchises



### **Survey Methodology**

All active franchise owners from participating companies were invited to participate in this survey process. New franchise owners that had just joined the system and had not been in business for 3 months or longer were not included. Additionally, any franchise owners that had left the franchise system prior to the survey process were not included.

Franchise Business Review contacted each franchisee individually and supplied them with their unique login information to complete the survey. Franchise Business Review made at least three attempts to reach each franchise owner directly by email and/or by telephone.

Our standard franchisee satisfaction survey includes 40 questions. The first 20 questions relate directly to the franchise owner's experience. The remaining 20 questions are focused on market, lifestyle and demographic questions. Each franchisee had the option to complete the survey anonymously.

The results represent the aggregated data from 2,620 completed surveys.

### **About this Survey**

### **About Franchise Business Review**

Franchise Business Review is a national franchise market research firm that performs independent surveys of franchisee satisfaction and franchise buyer experiences. Franchise Business Review's services include commissioned franchise research projects leveraging proprietary survey processes and software, as well as industry-wide studies of franchisee satisfaction open to all North American franchise companies.

The firm administers the annual Franchisee Satisfaction Awards — an annual rating of the top franchise companies based on the highest level of overall franchisee satisfaction by participating companies. Franchise Business Review is based in Kittery, ME and can be reached at 866-397-6680 or at www.FranchiseBusinessReview.com or www.FBR50.com.



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Multi-unit Dunkin' Donuts franchisee Antonio 'Tony' Salema (center) with sons Shawn, Isaac, Durval and daughter Krystal.

## **Growing Up Dunkin'**

Durval Salema knows about the highs and lows of family-run businesses. He helps run 14 Dunkin' Donuts franchises in the New Hampshire seacoast area as part of about 150 franchises owned by his extended family. And there's one thing for certain: Even with a franchise as popular and reliable as Dunkin' Donuts, running a business with your family isn't always easy.

"It's challenging to work with family," says Salema, 38, Director of Operations. "Your dad or family member who's in charge is tough on you. You don't get a lot of praise or acknowledgement for what you do... it's just expected. That's a tough pill to swallow."

### The Split

The Salema family has built a business empire of sorts in New England, but it hasn't come without a cost. Durval's father, Antonio, 61, and his uncle Joe, 64, had been partners since the beginning, but have recently gone their separate ways, splitting up their collection of 28 stores, with each now owning and operating 14 independently.

While the dispute was not taken to court, "it was a painful, three-year ordeal that just recently got settled," says Salema. "My dad and uncle don't even talk anymore. There was just too much baggage, going back over 10 years of working together. It totally destroyed their relationship."

Durval's parents bought their first Dunkin' Donuts store in November 1979 in Exeter, NH. They left their jobs working in a factory that made jumper cables, sold everything they had, and moved the family from Rhode Island to New Hampshire. The company run by Durval's father and uncle grew to nearly 30 locations, but a disagreement between the two men eventually led to the split. Although he wouldn't elaborate on the nature of the dispute between his father and uncle, Salema says personal pride widened the gulf between the two brothers.

"We're a Portuguese family, and Portuguese men tend to be extremely stubborn," Salema says. "They made it very personal. Fortunately, it is now resolved and we can move on... focus on growing our business."

### All Business... All the Time

Antonio and Joe aren't the only Salemas who own Dunkin' Donuts franchises. "If you go to a family function with my family, everyone's talking business," says Durval. "Everyone owns franchises. It's a big Portuguese contingent."

Salema has been working for his father and uncle since he was 10, but it took him a while to understand their dedication to work. "This is their life. I understand it now. Fifteen years ago, I was saying, 'Enough talk about work. Let's talk about something else,' " he says. "I try to take a slightly different approach than my dad did with me."

Durval's three siblings also work in the family business: Shawn, 27, is a general manager; Krystal, 24, is a trainer; and Isaac, 22, runs a store.

Salema expects a lot from his brothers and sister, who work for him, but he says he treats them like adults. "I think they enjoy working for me," Salema says. "I tell them, 'Work hard now because you'd much rather have time when you're 35 or 40 than when you're 25."

Durval works most closely with Shawn, and although the two have had some big disagreements over the years, they have a strong working relationship. "We've clearly divided up all the primary functions of the business and we each know who is responsible for what. This helps limit any conflicts and assures that things will run relatively smoothly," he says.

### **Slower Growth and Lots of Competition**

When the Salemas bought that first Dunkin' Donuts store in Exeter, things were much different than they are today. "In 1979, the competition was Mr. Donut. McDonald's served some breakfast, but their coffee wasn't so special," says Salema. Other than that, their rivals were mainly local diners.

"Back then we were pretty much the only game in town," he adds. "But today, you can get a cup of coffee anywhere: coffee shops, Starbucks, gas stations...it has evolved from basically no competition to competition everywhere."

Dunkin' Donuts has long been known for its donuts and coffee, but they have continued to add new product offerings in order to remain competitive and top-of-mind with customers. Some of the more successful additions over the years have been muffins, bagels, and the wildly popular lattes and ice coffee drinks. And the parent company, Dunkin' Brands, has plenty more in the works.

"They come up with new ideas all the time and we test them," says Salema. The latest menu additions are single-serving pizzas and hash browns, which are currently available nationally. "I think these are good new products," added Salema.

In addition to new products, staying competitive and growing also means being in front of more customers. Like many franchisees, the Salemas are busy updating older stores and developing new locations. Durval and his family are working to bring two or three new stores online during the next year.

Business is growing on a much smaller scale than in the past, he says. "In this area, expansion is very slow. We've kind of peaked out," adds Salema. "Customer counts are not up... partly because there are so many places to go," including other Dunkin' Donuts stores. "Sales are up but it's not like it used to be," he says. "In the late '80s, early '90s, growth was crazy!"

Despite the more competitive climate and long work days, Salema says he truly enjoys the franchise business. "This is the only thing I've ever done and I can't imagine ever doing anything else... or working for anyone else. Running your own business is a lot of work but it has its rewards."

And the fact that he can depend on his siblings to help out gives Salema a little quality time at home with his wife and three children. He's out of the house by 5 a.m. every day but home by 3 or 4 p.m. "I get to hang out with my kids in the afternoons. I'm the only dad around. It's pretty cool," he says. "That's a big benefit of my job."



### **FBRViewPoints**





Bruegger's franchisee Kevin Green

## KEVIN GREEN Age 41 BRUEGGER'S IN CARY AND RALEIGH, NORTH CAROLINA

Previous Occupation: Special Ed teacher How long as a franchisee: 2 years

How long did you spend researching franchises?

About 6 months to one year.

Top reason you chose your franchise?

Brand recognition in our area

Best part of being your own boss?

Telling myself what to do.

Worst part of being your own boss?

Long hours—cell phone has been on 24 hours a day for two years!

Craziest/most interesting thing that has happened to you as a franchise owner?

There is no crazy/interesting things happening at this Bruegger's. Or do you mean the fire alarm going off during Sunday AM rush, no air condition for two weeks in NC, no shows/no calls, oven catching fire and not working on Saturday AM, ordering 27 cases of 7-layer bars instead of plain dough, or all the drama with team members.

Advice for prospective franchise buyers?

Spend time finding the right location.

### TIPS FOR WOULD-BE FRANCHISE OWNERS

Dunkin' Donuts franchisee, Durval Salema, offers up the following tips for potential franchise owners:

- **Do your homework.** "If you are looking to get into a franchise, speak to other people that are involved in that franchise. Get their opinions on what it's like, how is the franchisor to deal with, what are the positives and negatives of the franchise business you are interested in."
- Get ready to work. Hard. "Many people think you make money hand over fist when you own a business. It takes a lot of time, hard work and capital to make that happen. You have to have a lot of passion for the business you're in. And the people you hire need to be passionate about the business as well."
- **Operation** Don't be an absentee owner. "You need to be there every day. Stop in...let your people see you. My dad still works in a store every day and he'll help out and do whatever needs to get to done. Franchising is a very hands-on business."
- Learn the business. "Learn who your customers are what their needs are and what they like about your business. The only way to do that is to be involved on the front lines...talking with customers as much as you can. By doing this, you can take that knowledge and grow your business."



### **FBRViewPoints**





Nathan's Famous franchisee, David Meder

### DAVID MEDER Age 52 NATHAN'S FAMOUS AT PENN STATE UNIVERSITY

Previous Occupation: Food Service Ops
How long as a franchisee: 1 year

### How long did you spend researching franchises?

The entire process took about ten months.

### Top reason you choose your franchise?

We were looking for an operation that would replace our self-operated US Burger Company to maintain a burger venue and a fast food operation that could serve our customer's needs and give us a face-lift while utilizing basically the same amount of space. We had looked at a few other franchisors, but Nathan's gave us a nationally known quality name brand and Nathan's was willing to work with us so that our franchise would benefit both parties. They were a pleasure to work with as we planned the details of the remodel and also in letting us tailor the menu to what would work in our operation.

There are some areas where they are firm about using only their products, but in some other areas they gave us flexibility to use products that meet their standards but come from our Foods building (such as breakfast items) so we did not have to duplicate inventory. Bottom line is that they are willing to work with you if you return the favor and operate the Nathan's according to their standards and try to grow the brand.

### Best part of being your own boss?

This does not strictly apply but in the planning stages we were able to hammer out a lot of the details and revise the plans with Nathan's representatives and then review the final plans before construction started.

### Worst part of being your own boss?

The worst part is sometimes getting all of the approval necessary before a final project is approved especially when having to submit plans and get approval from the State. Nathan's was ready to roll things out very quickly but we had to wait for lawyers, accountants and others to approve the entire process and then schedule the work for a time where we could complete the work without a major disruption to our existing operations.

### Craziest/most interesting thing that has happened to you as a franchise owner?

When we were investigating Nathan's as a potential franchisor we drove to New Jersey and saw 6 different franchises in NJ and NY in a two day span, as well as touring the Corporate Offices of Nathan's. Let me just say that anytime I drive to New York City it is an experience, I try to play the game of "where will I get stuck in traffic this time," but at the end of the second day driving through the side streets of the 5 Boroughs to avoid the expressways that were clogged with traffic, makes me appreciate that I do not have to work in any city and I appreciate those who do and know how to get around the bottlenecks.

### Advice for prospective franchise buyers?

I would say to investigate what you think is the best for your operation and then compare all of the options that Nathan's can offer. They are extremely flexible and have units ranging in size from tiny to huge and they have many different options and configurations to choose from. Also, no matter who you are speaking with, ask a lot of questions and then weigh the answers you get back and make a decision based on the overall fit of the company.



# "It's pretty simple, when franchisees are making good money, they are happy."

-Chris Elliot, Atlanta area franchisee

**FBRViewPoints** 

# A Fresh Approach To Franchising



El Pollo Loco is a different kind of restaurant franchise. It's different because it's the only Mexican restaurant franchise in the United States that was actually founded in Mexico. Started in 1975, El Pollo Loco began as a road-side chicken stand in the small town of Guasave on Mexico's Pacific Coast.

It's also different because it uses only fresh, antibiotic- and hormone-free chicken that's marinated in a special family recipe at the restaurant, then flame grilled and hand cut to order. The result

is casual restaurant-quality food with the speed and convenience of a fast food dining experience.

But the real reason El Pollo Loco stands out is their phenomenally high franchisee satisfaction. In an industry where low satisfaction is the norm, El Pollo Loco rises above the competition.

Part of the reason for their high rating is El Pollo Loco's extraordinary support system for new franchisees. Franchisees not only receive comprehensive operational training, but also learn how to hire and train others and build their work crews. There is also a wide range of marketing programs in place to help successfully open and operate your business. And of course, there is always your personal franchisee consultant who is only a phone call away any time you have a question.

A unique product and outstanding support are why franchisees are finding El Pollo Loco (the Crazy Chicken) a smart franchise opportunity.

## Communication Is Paramount to Franchise Success

As the CEO and President of El Pollo Loco, Steve Carley understands that the key ingredient to a successful franchise is communication. Since he started in 2001, he has maintained a policy of open, respectful communication between the home office and franchisees. This has created a partnership that helps manage everyone's expectations and helps move the company forward.

That policy of open communication even extends to

potential franchisees. It starts with creating a clear and realistic UFOC (Uniform Franchise Offering Circular) so franchisees understand potential revenues, costs, etc. El Pollo Loco also strongly encourages potential franchisees to talk with current franchise owners and will even provide them a list.

For Steve Carley, his ideal candidate is someone who understands the restaurant business and buys into what makes El Pollo Loco different. "We still make food in the restaurant," says Steve Carley. "We have no heat lamps. No staging bins. We pull it off the grill and hand cut it for the customer. There is no frozen patty assembly line." In fact, one of the strengths of El Pollo Loco is that the quality, taste and flavor of the food rival that of casual-dining restaurants. "We have the access, convenience and value of a fast-food restaurant, but the quality and ambiance of a casual dining restaurant."

As with much of the success of El Pollo Loco, it goes back to communicating effectively to set realistic expectations for everyone involved.

## An Informed Decision to Join El Pollo Loco

Chris Elliot didn't enter the franchisee world uninformed. As the former president of Cinnabon and COO for Church's Chicken, he had a unique perspective on the franchising industry and knew what to look for when he decided to move from the franchisor side to the franchisee side of the restaurant business. And for him, El Pollo Loco stood out from the rest. "The food quality was outstanding," said Chris. "There was something unique to the menu and a number of elements underneath that separates it from the rest." Elements like great potential, a unique product and an extraordinary franchisee support system.

He also offered his point of view as to the high franchisee approval rating. "When franchisees are making good money, they are happy," he said, calling on his experience working with franchisees with Cinnabon and Church's Chicken.







### The Benchmark of Franchisee Satisfaction

The Franchisee Satisfaction Index (FSI)™ is the industry standard by which the health of a franchise company can be measured and tracked over time. Established by Franchise Business Review in 2007, the FSI is a collective assessment of five critical areas of franchisee satisfaction. The FSI is used by franchisors and franchise investors to evaluate and benchmark the franchisee experience in order to make educated business and investment decisions.

In the last three years, Franchise Business Review has surveyed over 30,000 franchise owners on the satisfaction with their businesses. We have amassed the industry's largest database of franchisee satisfaction information. This data makes our Franchise Satisfaction Index one of the most powerful tools for evaluating franchises, tracking operational performance and predicting future success.

The five areas of franchisee satisfaction included in the FSI are:

### **Training & Support**

Business success is all about execution. And successful execution of a franchise business is all about the initial training, support and on-going development that franchisees receive from their franchisor.

### Systems

Proven systems and established procedures are why most people invest in a franchise versus starting a business from scratch. These are the things that make a franchise run smoothly, maintain a competitive advantage and achieve greater success over time.

### Relationship

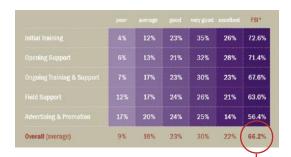
Building a successful business and making money are important to every franchise owner, but much of the long-term satisfaction and day-to-day enjoyment of a business comes from the strength of the relationship between franchisors and franchisees. Strong relationships can overcome many business challenges.

### **Financial Opportunity**

While the long-term financial goals of franchisees vary widely, making a living and earning a reasonable return on their business investment is something that most share in common. Satisfaction with the financial opportunity that a business generates is a primary driver to overall franchisee satisfaction.

### **General Satisfaction**

General satisfaction is where the rubber meets the road. Has the everyday experience of owning a franchise lived up to the expectations of the franchisees? Would they recommend this franchise to others? And most importantly, would they do it again?



### Understanding FSI -

FSI can range from 0 to 100% and represents a weighted sum of positive responses to a specific question or a group of questions within one of the areas being measured for satisfaction. If you were to simply add up all the positive responses to a question, giving the same value to an "excellent" response that you give to a "good" or "very good" response, you would paint an overly optimistic picture. FSI provides a realistic view of favorable satisfaction ratings by weighting more positive responses and discounting lesser responses to any given question.

FSI ratings provide a reference point or benchmark to help gauge the overall level of franchisee satisfaction or satisfaction in a specific area. While an FSI of 66.2% on its own is not all that valuable, using it as a benchmark to measure against other areas, or to compare various franchise systems and industry sectors is extremely useful.

## franchisee satisfaction study 2008 QSR Franchises





### **Percent Responses: Overall Satisfaction Snapshot**

				very good	excellent	FSI*
Training & Support	13.9%	19.2%	22.5%	24.7%	19.6%	54.4%
Franchise System			22.5%	27.5%	21.2%	57.4%
	7.1%	9.8%	20.0%	34.1%	29.0%	67.2%
Financial Opportunity	15.9%	13.9%	25.4%	32.6%	15.6%	55.6%
Overall Satisfaction	16.5%	14.6%	18.2%	20.6%	30.1%	58.5%
Overall (average)	13.2%	14.8%	21.7%	27.9%	23.1%	58.6%

### **Overall Satisfaction**

Each of the five areas evaluated for satisfaction are summarized here in the overall snapshots. They are broken out by area and displayed as both average rating (on a scale of 1 to 5) and percent response. We include a FSI rating for each area, as well as an overall FSI rating.

On pages 12-13 we provide comprehensive franchisee demographic and market information to help provide a full picture of franchise owners throughout the industry.

### **Key Findings: Overall Satisfaction**

The results of this study reveal that on the whole, franchise owners are satisfied with their franchise business and the companies they have invested in. It is worth noting however that a small minority expressed some dissatisfaction.

Even the best franchise systems have some dissatisfied franchisees among their ranks. This is completely normal and you should not necessarily be concerned about a little negative feedback. That said, listen very carefully to these franchisees and try to identify their specific issues, and address these directly with other franchisees and the franchisor.

Every franchise is unique with different requirements, responsibilities and opportunities. The most important question to ask when researching any franchise opportunity is... "Is this business right for me?" A good franchise system will help you answer this but ultimately it is up to you to fully understand all the aspects of the business investment.

## franchisee satisfaction study 2008 QSR Franchises



### **Market Information**

### Units/Territories

The number of franchise units/territories owned by each franchise owner.

### Additional Units/Territories

Asks whether or not current franchise owners are planning on purchasing additional franchise units/territories in the future. Please Note: in some systems, purchasing additional franchise units or territories may not be an option, or it may not even be necessary given the business model.

### **Geographic Location**

The geographic breakdown of franchise owners.

### **Market Size**

The market size breakdown of franchise owners.



Major Metro (500,000+ population)	20.9%
Large Market (250,000 - 499,999 population)	9.6%
Medium Market (100,000 - 249,999 population)	28.6%
Small Market (50,000 - 99,999 population)	21.0%
Very Small Market (Under 50,000 population)	19.9%
Total:	100.0%

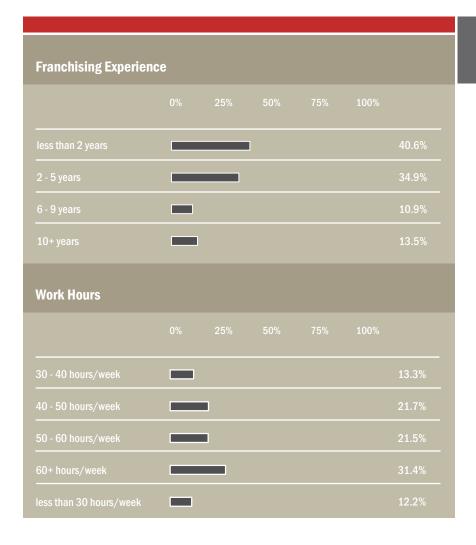
Units / Territory Owned	d					
	0%	25%	50%	75%	100%	
single unit / territory						64.9%
2 units / territories						18.3%
3 units / territories						7.3%
4 units / territories						2.9%
						6.6%
Planning to buy more units?		26.4%	12.1%	23.1%	13.2%	25.3%
Geographic Location						
	0%	25%	50%	75%	100%	
Northeast US	0%	25%	50%	75%	100%	17.4%
Northeast US Southeast US	0%	25%	50%	75%	100%	17.4%
	0%	25%	50%	75%	100%	
Southeast US	0%	25%	50%	75%	100%	14.9%
Southeast US  Midwest US	0%	25%	50%	75%	100%	14.9%
Southeast US  Midwest US  South US	0%	25%	50%	75%	100%	14.9% 26.2% 7.8%
Southeast US  Midwest US  South US  Northwest US	0%	25%	50%	75%	100%	14.9% 26.2% 7.8% 8.7%

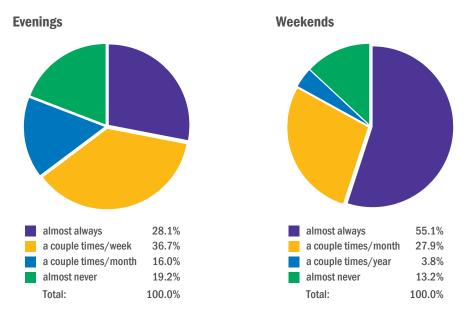
### **Key Findings: Market Information**

Most franchisees are single-unit operators. Some systems on the other hand are designed around multi-unit ownership. Be sure you find out which type ownership the franchisor recommends and that the model matches your goals.

Seek feedback from franchisees who are serving markets and populations (ethnicity, income level, etc.) similar to the one you are looking to enter.







### **Business Lifestyle**

### **Franchising Experience**

Looks at the breakdown of current franchise owners by their years of experience within their system.

### **Work Hours**

Looks at the breakdown of current franchisees by the average hours they work each week.

### **Evenings**

Looks at the breakdown of franchisees by the average number of evenings they are required to work.

### Weekends

Looks at the breakdown of current franchise owners by the average number of weekends they are required to work.

### Key Findings: Business Lifestyle

Each franchise opportunity requires a unique set of demands on its owners. For example, food and retail-based businesses will typically require their owners to work evenings and weekends, as well as manage low-skilled, low-wage employees. On the flip side, a business service franchise owner may work more traditional business hours but may be required to spend significant time networking in the local business community.

It is critical that you understand the skills and typical day-to-day tasks that are required should you choose to become a franchise owner. A good system will be up-front and clear about these requirements and the personal skills necessary to be successful.



## Unless you're playing the fairway...it's going to be rough. The **AAFD** can help you play the fairway.

ranchising is a crowded field. Before you can bring franchisees through your door, you have to help them over an enormous hurdle: trust. They won't sit down to consider your franchise until they know that yours is a stand-up organization.

That's why the Fair Franchising Seal is so important. It's a clear sign that says integrity. Fair play. And commitment to a business model in which all players win.

The Fair Franchising Seal comes from only one source, the American Association of Franchisees & Dealers, an independent trade association dedicated to promoting collaborative franchise cultures that embrace equitable franchising practices. As an objective third-party, we're uniquely qualified to review your franchise's practices, policies and contracts. If your organization meets the standards required for fair franchising, the AAFD can honor you with credibility -- a Fair Franchising Seal that helps you stand out among your competitors.

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