



New franchise leaders talk growth plans, challenges

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Insights from recently appointed franchise development executives at Captain D's Seafood Kitchen, Toppers Pizza, Trufoods, and HoneyBaked Ham



Michael Arrowsmith, Captain D's

Restaurant industry franchisors have signaled their intentions to resume growth in 2013 and beyond through their hiring of new executives to oversee renewed franchise expansion.

Several of those leaders, including those for Captain D's Seafood Kitchen, Toppers Pizza, Trufoods and HoneyBaked Ham, remarked that even though limited access to growth capital and escalating real estate costs might hamper plans to ramp up franchising, the near future still looks bright.

Nation's Restaurant News surveyed the state of the franchise space with [Michael Arrowsmith, who joined Captain D's as chief development officer](#) in late March; Chris Cheek, who became Toppers Pizza's chief development officer on Aug. 7; Anthony Leone, the founder of Energy Kitchen who joined multibrand franchisor Trufoods on Aug. 15; and Melissa McFarlin, who joined HoneyBaked Ham as director of franchise development in April.

What does the hire of a new executive to oversee franchise growth say about where your brand is and what its near-term potential is?

Michael Arrowsmith, Captain D's: It's a sign that we've fixed the basics and have turned around the brand. We're positioning it in the fast-casual space with a new remodel program... When chief executive Phil Greifeld came in here, he fixed the operations execution, and now, because we've had success there, we have existing franchisees who want to grow and franchisees from other concepts who want to talk to us.

Chris Cheek, Toppers Pizza: My experience has been that when a company wants to grow, it has to be by new-store openings, and in order to hit store-opening objectives, a lot of people have to tie it together, including someone in my position recruiting the right franchisees on the front end. Getting the best candidates in the right markets and getting the right real estate sites translates into opening restaurants, which helps the construction piece of the business as well.



Chris Cheek, Toppers Pizza

Anthony Leone, Trufoods: Trufoods buys underperforming restaurants and works to turn them around, and they wanted me to come in and make Pudgie's menu and décor more relevant in today's marketplace. We're making it more appealing, because it's a 1980s-looking brand, but we're keeping the core products like its skinless fried [chicken](#) and adding new items for the 2013 palate. We're going to try and offer more dayparts for Pudgie's and Ritter's. For Wall St. Deli, we have strategies for traditional and nontraditional sites, and we're also tweaking their menu and décor.

Melissa McFarlin, HoneyBaked Ham: Previously, we didn't offer franchising in Northeastern states, and now we've opened up that territory for franchisees, so there's huge potential for multiunit and single-unit operators alike. HoneyBaked fell into franchising when they purchased Hickory Ham and Heavenly Ham, who were set up on a franchise structure. We have 400 locations but only 189 franchise stores, so there are secondary markets across the country that might not support a corporate store right now but could be very successful as a franchise market.

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Anthony Leone, Trufoods

Where are the best opportunities for your brand?

Arrowsmith, Captain D's: We're underpenetrated in every market we're in. Development 101 is if you can grow in areas where you already are and have marketing density and operations support, it's better to go there than somewhere where nobody's heard of your brand. We're going to go deeper into our markets and expand from there. You've also got oversaturation of burger and sandwich shops, and those are fine operators, but their franchisees sometimes look for alternatives.

Cheek, Toppers: We're in a category that, in my opinion, is right down the middle of the plate. It's not going

away. From that aspect, we have a lot of markets we can grow into around the country. We could go to the far West, like Arizona or Colorado, though it could require a larger commitment from a new franchisee, or build out an existing market, like Chicago or Minneapolis.

Leone, Trufoods: Making these concepts more relevant in the marketplace is our opportunity. We're rebranding Ritter's and Pudgie's, have built prototype locations, and we'll sell franchises from there. That's exciting. We're in Houston and the Midwest for Ritter's, Pudgie's is in the Northeast, Arthur Treacher's is in the Midwest, and Wall St. Deli is in Pennsylvania and the South.

McFarlin, HoneyBaked Ham: We consider ourselves more retail than restaurant, but the café side of the business also leads into catering. We have this hub-and-spoke model, where the hub store has the production area where we hand-glaze our turkeys and hams, but your spokes could be holiday pop-up locations, or a partnership you set up with a grocery store, mall or military base. We're starting to test out a similar "lunch express concept." A franchisee of ours has a mobile trailer he takes to speedways and race tracks to sell sandwiches.



Melissa McFarlin, HoneyBaked Ham

What are the biggest challenges remaining for franchisors and franchisees?

Arrowsmith, Captain D's: The big hurdle, although it's getting better, is financing. It's not where it has been or where it needs to be. There's a disconnect between what you're hearing politically and what's translating to the banks, which are still very conservative, particularly with guys who aren't in our industry yet. The newer franchisee coming in maybe doesn't have foodservice experience yet could be a great franchisee, but getting him capital is going to be the biggest challenge.

Cheek, Toppers: The toughest part is finding the right franchisees, not the right markets. Yes, we want to continue to grow in penetrated markets, but we also know that where we can find really good franchisees, we can grow. Access to capital has gotten a lot better, but it still isn't back to where it was before the crash. I don't think that's a problem necessarily, because we have three or four approved lenders we work with, and our investment is on the lower side of the restaurant industry average.

Leone, Trufoods: We're looking to cluster stores in different markets to get economies of scale to support franchisees and leverage our pricing. The biggest challenge for me right now is learning all the brands, but for the company, purchasing and distribution is a big one. We're spread out right now, so managing our freight lines and getting them into the whole system is difficult.

McFarlin, HoneyBaked Ham: There are some glaring boulders in the way of other concepts where I've worked, but here I haven't seen any that stand out. Real estate is starting to increase a bit — for a while, rental rates were the lowest we'd seen for a while — which is good, because sites aren't sitting vacant. Lending has

come back, but banks still want to lend to the right people going into the right system. People are a lot more cautious and doing more due diligence, which I'm happy about.

Will the past few years' fluctuations in consumer confidence, commodity and real estate costs, or uncertainty over the Affordable Care Act change the way you support franchisees in your new role?

Arrowsmith, Captain D's: I think in today's world, it's critical to make sure your brand is a compelling business model. You have to have a business model that makes sense and that a franchisee can understand and evaluate quickly. They need to know they can make money and serve customers easily and efficiently. That's also key to getting financing: Banks want to understand your business model.

Cheek, Toppers Pizza: These things involve all restaurant categories, and we always find a way to figure it out. When gas went to \$4 per gallon years ago, we figured it out. I'll continue to interact with our franchisees as partners, with their franchisee advisory council and marketing advisory board giving us a way to let them into our decision-making process. Whatever comes up, we'll work with them to figure that out. One of the things that put us on equal footing is that our company-owned restaurants pay the royalty as well, and we're the largest operator of the brand today.

Leone, Trufoods: I was with Energy Kitchen for 16 years, starting it and building it to a whole system, just doing everything. I'm taking all those learnings and applying them to these concepts. As an entrepreneur, I think I'm bringing a level of knowledge of building a brand and the challenge of running day-to-day operations. I'm most focused on coaching franchisees to run their units and develop their people in the right way.

McFarlin, HoneyBaked Ham: For me, the essentials are always the same. What works is having the conversation with the franchisees and making sure that I tailor my conversations for what their goals are. We're always changing what tools prospective franchisees need, so whether it's pulling together projections and P&Ls for banks, or helping them with demographic information and the processes for pre-opening, those have changed for the better over the past few years.

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