

THE LOWDOWN ON FAST CASUAL

Franchise Times®

www.franchisetimes.com

The News and Information Source for Franchising

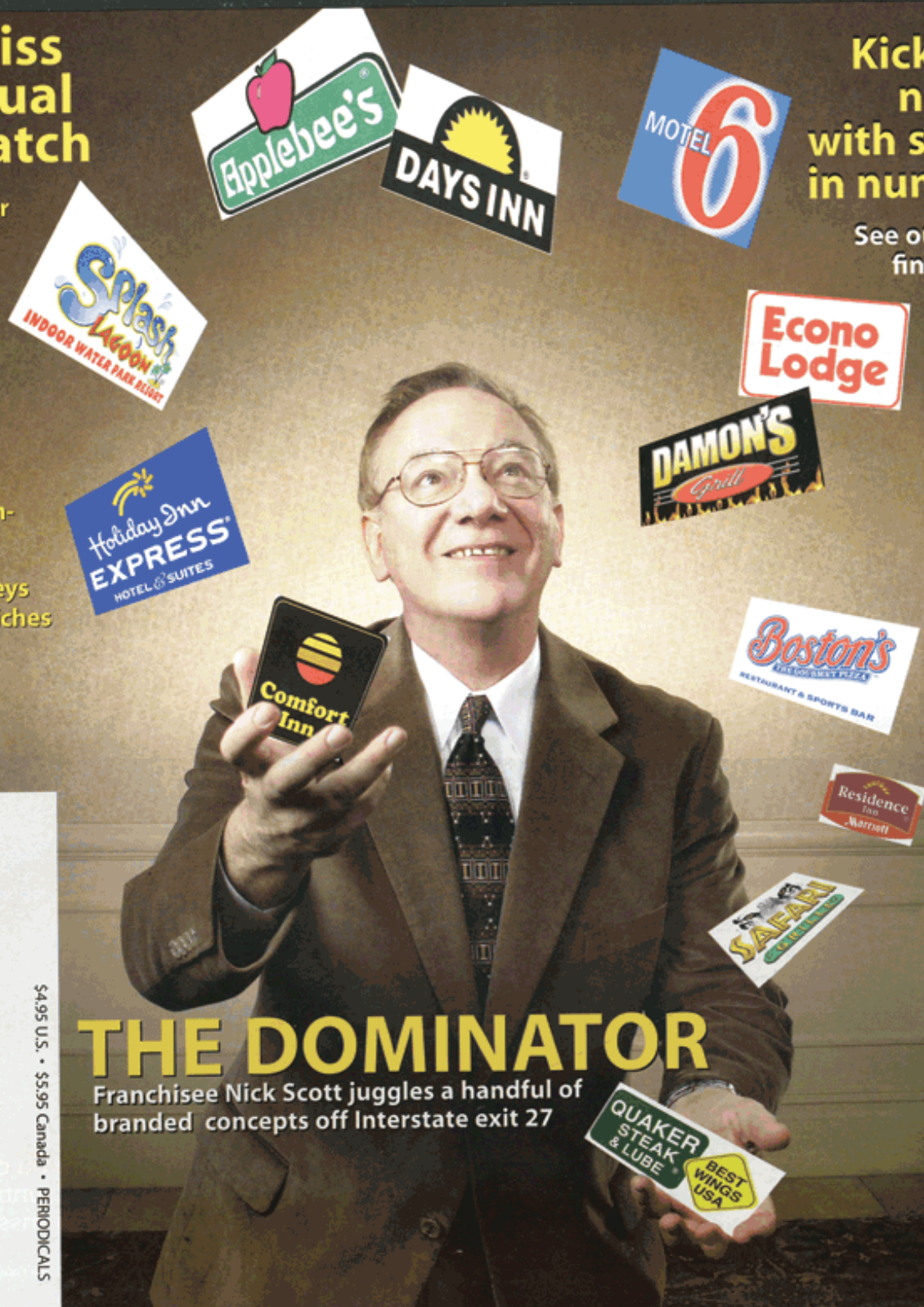
January 2005

Don't miss our annual 20 to watch

- Curves founder exercises his rights, as empire grows
- Matt Shay has his day at IFA's helm
- Pizza slices up Hispanic neighborhoods
- Spongemonkeys selling sandwiches

Kick off the new year with strength in numbers...

See our expanded finance section



THE DOMINATOR

Franchisee Nick Scott juggles a handful of branded concepts off Interstate exit 27

\$4.95 U.S. • \$5.95 Canada • PERIODICALS

ON THE COVER

12 The dominator: Juggling 12 brands on one I-90 exit

Three generations of entrepreneurs find synergies and proximity in multiple brands

16 20 to Watch

It's time for us to name drop—find out who made the "A" list

21 A look at last year's 20 to Watch—what did they do?



FAST CASUAL

22 Overview—Is your restaurant concept really fast casual?

Making the leap to fast casual

23 A definition—Just what is fast casual, eh?

24 San Francisco Oven—

Restaurant guys find their hearts in the Golden Gate city

25 Tijuana Flats—

This is your mom & pop's Tex Mex experience

26 Off the Grill—

A growth misfire leads a franchisor to trim in order to fly right

FINANCE

33 Restaurant franchisees' top 10 financial mistakes

By David Rowe

34 Beg, borrow and be original

By Dennis Monroe

36 Restaurant Finance & Development Conference—

Speakers say outlook good for future financing

38 Scoreboard: Dollar Woes

39 How healthy are you...financially speaking

By Stephen Mariani

FEATURES

PRIVATE EQUITY

8 It's a bird, it's a plane, it's private equity man

9 Tips on finding a private-equity partner

28 Five-and-a-half lessons from leading entrepreneurs

By Peter Birkeland

50 Branding with arrogance

By Angelo Fernando

Getting the word out about a product is not for the faint of heart

LEGAL

45 Blimpie franchisees sue

Franchisees disagree with franchisor's use of rebates

46 Franchising: The unintended consequence

By John Vernon

46 Wiggin & Dana blog sings about Ray Kroc

TECH

47 The latest, greatest tech tools find franchising

Technology may have made our business lives easier, but the myriad of choices can be a homework headache.

48 Google Yourself—Desktop Search

By Roman Lubynsky

You can't always get what you want, but if you Google sometime, you just might find, you get what you need

49 Micro leverages customer data via the Internet

49 Tech briefs

The latest tech partnerships and announcements

REAL ESTATE

42 The next best thing to your own pad: End-caps

43 Fall hurricanes still impacting building

COLUMNISTS

51 Operations | New Year; new resolve

By Gene Baldwin

52 Continental Franchise Review | MBE franchisees still seeking consolidation in arbitration

By Janet Sparks

53 International | In China: The other shoe drops, but softly

By Phil Zeidman

IN EVERY ISSUE

PUBLISHER'S COLUMN

4 Curiosity doesn't always kill the cat

By Mary Jo Larson

NEWCOMERS

10 New franchise sparks interest

10 Health and beauty newcomers/FRANData's latest research is a beaut

11 This wick wants you

FRANCHISEE OF THE MONTH

27 Huddle House franchisee puts her faith where her employees are

BEHIND THE SALES

40 If I only knew then...

40 Development Agreements

41 A man with a Checkers future, not past

EXIT INTERVIEW

58 Rats another column to write

By Nancy Weingartner

DEPARTMENTS

29 Business Services Directory

54 Classified ads

54 Crossword puzzle

54 Executive Ladder

56 Calendar

57 Search Engines | Consultants Network

THE DOMINATOR:

Juggling 12 brands on one I-90 exit

Most multiunit franchisees find a brand they like and build it until they run out of territory. The Scotts of Erie, Pa., found a location and then looked for multiple franchises to populate it.

By Nancy Weingartner

The Scotts own Exit 27 off I-90 in Erie, Pa.

Need a room for the night? You have your choice of the Scotts' Econo Lodge, Motel 6, Holiday Express, Residence Inn or Comfort Inn—all within walking distance of each other (at the next exit you can stay at the Scotts' Days Inn.)

Hungry? Walk on over to the Scotts' Applebee's, Damon's or Quaker Steak & Lube—or the soon-to-be completed Boston Pizza. If you're too tired to leave your room, all three restaurants do room service.

Need something for the kids to do while you're in town?

Connected to three of the hotels is Splash Lagoon Indoor Water Resort, the largest indoor water park on the East Coast. And yes, the \$40 million water park is part of the Scotts' Exit 27 holdings.

Want dinner at an upscale, themed restaurant? Stop in at the just-opened Safari Grill, with hand-painted murals and artifacts of Africa.

Hosting a meeting? Then you'll want to book the Ambassador Banquet

& Conference Center, a topnotch, independent facility attached to the Courtyard by Marriott.

Scotts Enterprises is a third-generation company that has redefined entrepreneurship.

The history

It starts with Christ (pronounced Crist) Skountzos, who as a 13-year-old was sent from

Greece to "the promised land," America, to work for his uncle in Minneapolis. It took four, long trips from his home village to Athens before he finally boarded the ship and made his voyage. Tenacity is a trait Christ called upon multiple times in his career. When he finally reached America and was being processed at Ellis Island, the

immigration officer told him he should change his name because no one in America would be able to pronounce it. The youngster thought about it and then asked, "What's your name?"

"Scott," the official replied.

"That's good. I'll take that one," Christ is reported as saying. And just like that, Skountzos became Scott; and Christ was shortened to the more American—and less religious sounding—Chris.

America may have been the land of opportunity, but for a Greek immigrant that opportunity came with hard work. Christ got up at 4:30 a.m. in order to chase down trolleys to sell newspapers before school. No easy feat in the Minnesota winters. A true entrepreneur, Christ recruited friends to work for him selling papers. After school he worked for his uncle at his soda fountain. Once his 16-hour work and school day was completed, he found time to teach himself the violin. And, he sent money home for his family in Greece.

A stint working in a hotel in Chicago taught the immigrant another business lesson. One night he delivered room service to a bunch of card-playing gangsters. Real life gangsters, with machine guns and broads. When it came time for his tip, a couple of the gangsters grabbed him, held him upside down over the jackpot and told him he could keep "whatever he could bite," Scott said. Apparently, the size of the tip wasn't too bad, but Christ felt the job was causing him to bite off more than he wanted to chew. He moved on.

Since there was no future with his uncle—he had his own children to bring into the business—Christ took an offer from an acquaintance to work in a restaurant in Erie, Pa.

He was involved in a number of businesses, including a stint as a hair salon owner, a restaurant owner and an independent hotelier. His philosophy of always exceeding expectations—something both the second and third generations of Scotts follow—only backfired once. He had taken a rundown restaurant and remodeled it in grand style. When he reopened, business was worse than before. He finally ran into a former customer and asked why he never came to eat at his restaurant any more. He was told that the restaurant was now so fancy, the customer didn't feel comfortable eating there.

The second generation

While earning a degree in hotel administration at Cornell University in the early 1960s, Christ's son, Nick Scott, began reading *The Wall Street Journal* and became enamored with a new concept—franchising. He liked the idea of capitalizing on someone else's research and operations, for a reasonably low-entry rate.

He talked his father into checking out Bonanza Sirloin Pit, where for \$1.39, a person could get a bone-in sirloin steak, baked potato, salad and Texas toast. The father/son team flew to Tampa to meet the franchise sales staff, who picked them up in a limo with Texas longhorns on the front grill.

Scott laughs when he admits that the franchise salesman most likely had saved two of the better steaks for them, because after sampling the steak and observing the line circling the building, they were roped in. "I was thinking this can't miss; this is a no-brainer,"

MAP LEGEND

WHO'S WHO

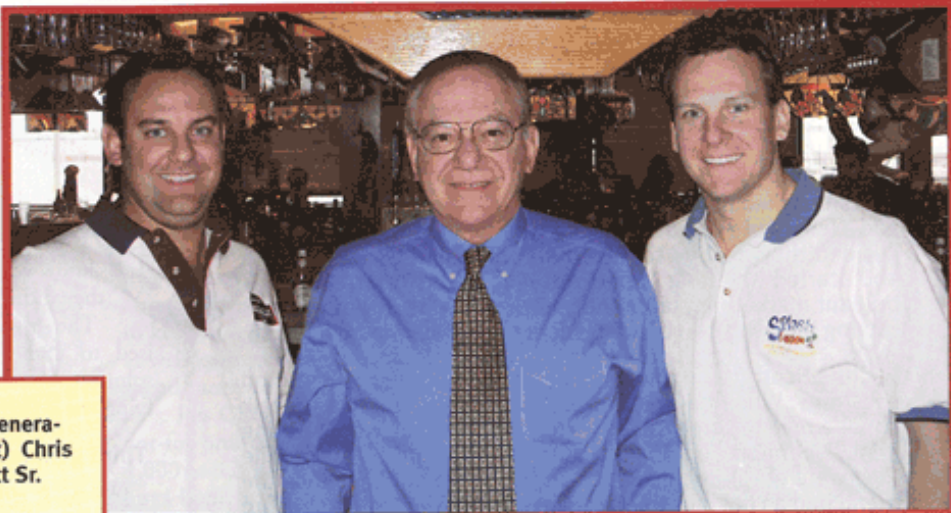
This is a tale of four people and two names. Since we can't conform to the Associated Press Stylebook and refer to the characters in the story by their last name, here's how to recognize them in the story:

Grandfather: Chris Scott (Christ, pronounced Crist)

Father: Nick Scott Sr. (Scott)

Sons: Nick Scott Jr. (Nick)
Chris Scott (Chris)





Two out of three generations: (left to right) Chris N. Scott, Nick Scott Sr. and Nick Scott Jr.

Scott says.

Their territory, which cost them \$50,000, included Niagara Falls and Buffalo, N.Y. After building several of the budget steakhouses, Scott says the problem was that they then had to be operated day in and day out. "I must have cooked tens of thousands of steaks," Scott says, including some he burned when the roof caught on fire one night.

A new opportunity opened up for the Scotts when the franchisor decided to buy back its franchisees' restaurants. Their next franchise experience was Arby's, which was wildly successful thanks to an unexpected real estate tip. At a cocktail party one night, Scott overheard someone bragging about how well a McDonald's was doing on Exit 24. "We looked for land and put an Arby's there (at the exit) and it was a huge success," Scott says. "That woke us up to the Interstate." He added a Days Inn near the Arby's. The opening of the Days Inn didn't go as smoothly as planned, Scott's son Nick remembers. The drapes didn't arrive before the scheduled grand opening and the new hoteliers couldn't afford to delay the opening any longer—they needed to start recouping their investment. Nick and his older brother Chris, along with a

couple of their teenage friends, waited in the lobby for the guests to check in so they could follow them to their rooms. The boys then duct-taped a blanket over the window (sheets proved to be too transparent, Nick

25,000-gallon tanks in the back of the property. What was suppose to be a temporary measure ended up being their water source for a year and a half, he says.

Scott's Exit 27 empire grew because every time Scott got wind of a competitor coming to town, he'd buy the property before they had a chance.

"We call him 'Hoov,'" because he vacuums up knowledge, Nick says, laughing. Scott never visits a business without chatting with the desk clerk, the maid or the dishwasher, his son says.

Through his "research" he finds out what has been successful for others. For instance, when he heard from a reputable source that rooms with jacuzzis could be marketed as weekend getaways, he designated 50 percent of his rooms in a number of his properties as jacuzzi suites. His thinking, he says, is that the jacuzzi tub will be a perk for the business traveler who doesn't have to pay for the upgrade, and he can market them for the weekend knowing he'll have a room available.

Doing more than what is in the franchisor's plans is the Scotts' trademark. And, yes, it does occasionally mean long negotiations with the franchisor.

Their Holiday Inn Express, for example, has a number of "kids rooms," where a nook in the oversized room has been transformed into a brightly colored, kid-friendly space, with one wall lined with a bunk bed and the other with a desk sporting a television and stereo system. There's even a wall phone to call grandma.

At their Courtyard by Marriott property they had to talk the franchisor into allowing them to enclose part of the courtyard in order to utilize the space more than a couple of months a year. They added a koi pond, and an independent conference center.

The secret to his success, Scott says,

AT A GLANCE

Scott Enterprises

Headquarters: Erie, Pa.

No. of employees: 1,600 in 2005

Restaurant concepts:

Applebee's (3)

Quaker Steak & Lube (2) plus one being built in Buffalo, N.Y., home of the Buffalo wing

Damon's Grill (1)

Boston's Gourmet Pizza Restaurant & Sports Bar (1) opening in 2005

Safari Grill (1) an upscale, independent with an African theme

Hotels (8 brands)

Marriott Residence Inn; Courtyard by Marriott, Holiday Inn Express, Comfort Inn, Econo Lodge, Days Inn and Motel 6

Additional properties:

Splash Lagoon, a year-round, destination indoor water park

Ambassador Banquet & Conference Center

INTERSTATE

90

explained).

Fortunately, the opening of a new Days Inn was eagerly anticipated, and the guests, for the most part, were happy to get a room. "Some even helped (with the curtain caper)," Nick says.

Yankee ingenuity once again played a part in the opening of a second brand, when the county's promised water line didn't arrive at the hotel site on schedule. In order to open the Comfort Inn, Scott had to have two

is finding good franchise partners. "Your success is tied to your franchisor," he says. A good franchisor is progressive, committed to research and development, and has a plan you, as a franchisee, can execute, he says. "It's difficult to overcome a weakness in a concept," he adds.

A different twist

Instead of finding one good brand and replicating it several times, Scott seeks out brands that will compliment the ones already in his portfolio. "In hotels, we've got every market segment covered from budget to upscale," he says. And, each casual dining restaurant has a different menu mix.

Although his hotels have won multiple awards from the franchisor for excellence, Scott has an added pressure to maintain a high-level of quality at his properties—he's building in his hometown.

Managing multiple brands means keeping the lines of communication open, Chris says. They've also been able to keep good people around. One such find is Jeff Mona, who as director of operations has been with the company eight-and-a-half years.

The Scotts inspire loyalty from the staff, he says, because they put more dollars into making the property special than is typical. "Nick Sr. is always

Stories of third-generation entrepreneurship

Nick Scott Jr. remembers his first foray into entrepreneurship when he was in kindergarten. He and his brother had a lemonade stand. Business was slow, so the brothers decided they needed to advertise. Nick climbed the tree, and started shouting "lemonade." It would have been a brilliant marketing plan, if only the branch hadn't broken—leaving him with two broken wrists to start kindergarten with.

Chris Scott (the grandson) cut his entrepreneurial teeth on chestnuts. When he was 11 or 12, he and a friend had to walk about a mile to catch the bus. They noticed they were passing a lot of fishermen and decided they might want a snack while they were out in their boat or on the shore all day. Since the friend had a chestnut tree (free inventory), the two bagged up the chestnuts that had fallen every day and sold them for 50 cents a small bag, \$1.25 for a large bag.

INTERSTATE

90

elder Scott—how were people going to know where to eat, if they didn't tell them?

The manager promised to come up with a solution, short of electrifying the posters.

Third generation buy in

What a difference a generation makes. Nick Scott marvels at just how far the business his grandfather started with his independent hotels and restaurants has come.

"In 1950, my grandfather was going to banks trying to get them to lend him money. Now in 2004, my brother and I are getting calls from banks trying to lend us money," he says.

Just as Scott grew up working in his parents' business—Scott is quick to point out that his mother Pauline played an invaluable role in helping his father succeed, just as his wife Kim has helped him—so have his sons, Nick and Chris.

Chris remembers his friends heading for the shore, while he was home mowing the lawn at one of the hotels, or doing dishes at one of the restaurants. But he doesn't remember being resentful. It's just the way it was, he says. "I didn't know anything else," he says, "and in the end it paid off."

Scott's advice for raising responsible kids with a good, strong work ethic is: "Don't throw money at them or give them a lot of free time."

Both brothers earned degrees in hospitality management at Penn State. They handle the operations, while their father is the visionary. Chris leans toward the hotel side—plus the finance, legal and accounting side of the business.

Nick oversees the restaurant division, plus the advertising and marketing. Both credit an outstanding staff with helping them keep up with the myriad details presented by dealing with so many different franchisors and their requirements, plus seasonal menu and promotional changes.

As with most entrepreneurs, the three Scotts aren't content with status quo. They're always looking at the next territory to conquer. Since Erie is near Pittsburgh; Cleveland, Ohio; and Buffalo, N.Y., there are close-by markets to develop. In addition, they own a 12-acre site on Erie's Bayfront, where a multi-use development is being built.

There's a possibility of franchising Splash Lagoon, and maybe even Safari Grill.

And, there's always the fourth generation to carry on the family's hospitality. ☐



An accomplished pianist and photographer, Nick Scott Sr., devotes a lot of time and money to the arts in his local community. Scott Enterprises is equally generous to the social services in the Erie, Pa., area. While Scott has three pianos at home, this one's part of the decor in his Courtyard by Marriott.

looking through the guests' eyes," he adds. "When employees see you putting dollars back into the product, that gives them buy-in."

A watershed of marketing opportunities

The beauty of the Scotts game plan is the synergies of all their properties, not to mention, proximity. And, they let no opportunity to cross-market go unplanned. A central reservation crew fields between 500 and 600 calls a day, and after a mailing for Splash Lagoon has hit, the calls can be in the thousands, Nick says.

Many of the calls are booking hotel packages in conjunction with Splash Lagoon. The Scotts have priced the packages so that the cost to book a room for the night is about the same as it is to get a one-day pass to the water park. With the hotel package deal, you get two, not one, day at Splash Lagoon and its million dollar arcade.

The park is closed Tuesdays and Wednesdays, which are slow days for recreation, but good days to pick up business travelers.

Scott never lets his guard down when it comes to his businesses.

During an elevator ride to show off one of Holiday Inn's kids suites, Scott noticed that the poster advertising their restaurants and Splash Lagoon was missing, and in its place was a bland piece of cardboard.

When he pointed it out to the manager, she explained that the posters were routinely taken by kids as souvenirs of their visit. This didn't set well with the

\$3.9 million

McALISTER'S
DELI

SB Partners invested \$3.9 million to acquire a minority stake in the franchisor of McAlister's Deli restaurants.

2004



SB PARTNERS

- Investors in top-tier franchisees and emerging franchisors
- Equity of \$1 million to \$5 million

Contact Dave Shryock
616-393-0560
or dave@sbpartners.com