



2006 Franchise Technology

Final Report

September 2006

EXECUTIVE SUMMARY

Thank you again to all the franchisors who participated in our 2006 Franchise Technology Adoption market research project. We achieved a 40% response rate which is extremely good. Some of the key highlights ...

- #1 criterion when rolling out new technology to franchisees is franchisee satisfaction.
- The top challenges regarding rolling out technology to franchisees is low cost and better adoption (i.e., fast and broad)
- Mandates are the #1 tactic for driving adoption of new technology
- While mandates are helpful, participants realize that they are not sufficient to drive successful adoption and often alienate franchisees.
- The top technologies as measured by "looking to replace" plus "looking to add" are POS, Broadband Service, Video Surveillance, Customer Loyalty and Back Office.
- The top challenges mentioned by participants over the next 18 months are revenue growth, employee training and quick response to market changes.
- #1 technologies being planned for deployment by year are:
 - 2006: cashless payments
 - 2007: back office
 - 2008: POS
- About 1/4 of franchisors are using CRM solutions to manage franchisee information and interactions.
- Kiosks are hardly in use today and are not yet planned for future technology rollouts.

If you have any questions or suggestions to improve the project (we hope to repeat it annually) please contact Ken Heun (262-204-6021, kenh@thefrantzgroup.com)

PROJECT OVERVIEW & METHODOLOGY

Beginning in June 2006, The Frantz Group conducted an informal market research targeting the top franchisors in the foodservice industry – specifically the casual dining and quick serve restaurant segments. The project had these objectives:

- To understand how new technology is rolled out to franchisees
- To understand the key measures of success rollouts
- To understand the tactics that best drive acceptance
- To gain insight into the future regarding challenges and technologies

The survey itself was 22 questions in length:

1. Franchiser and contact information
2. Franchised environment
3. Participant responsibilities regarding new technologies
4. Participant responsibilities regarding technology vendors
5. Participant responsibilities regarding adoption of new technology
6. Top challenges over the next 18 months
7. How do you drive technology adoption
8. Rate your last major rollout of new technology
9. Rate the state of your franchisee database

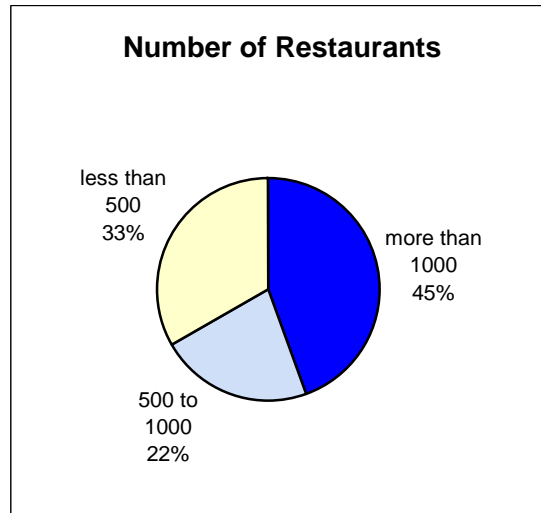
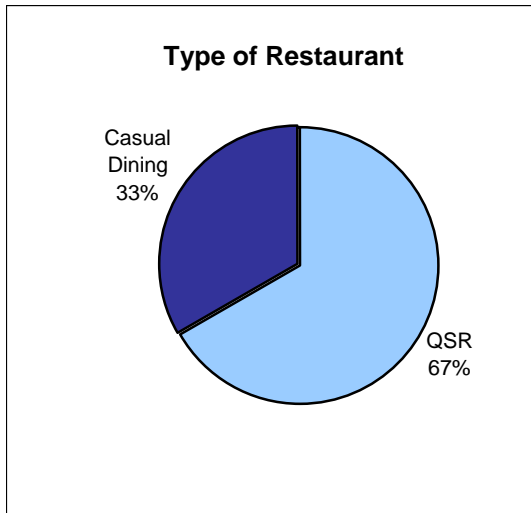


10. Use of mandates
11. How do you handle those who ignore mandates
12. Success factors for new technology rollouts
13. Importance of technology over next 3 years
14. Current technology vendors
15. Satisfaction with current technology solutions (part 1)
16. Satisfaction with current technology solutions (part 2)
17. Technology solution rollout plans (part 1)
18. Technology solution rollout plans (part 2)
19. Other technologies under consideration
20. Use of CRM to manage franchisee interactions
21. Challenges regarding new technology
22. Referral (to participate in this market research project)

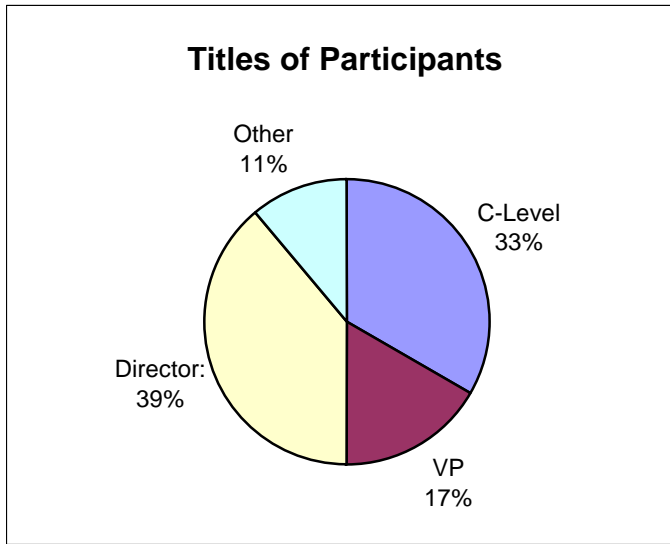
The information was gathered over a 2-month period beginning June 28, 2006. The information was collected via the web. Participants were chosen according to very strict criteria:

- Target companies were the top franchisors in the foodservice industry specifically quick serve restaurants and casual dining restaurants.
- Target contacts were senior IT people in decision-making positions regarding technology selection and franchisee adoption.

Invitations were sent to 45 franchisors in the foodservice industry. Participants were offered two incentives – a copy of the final report and a \$25 gift certificate in exchange for their time. We received responses from 18 franchisors representing nearly 47,000 restaurants, giving us a 40% response rate which exceeded our expectations. And the participation across the two target segments was right in line with expectations:



And if you look at the titles of the participants from these companies, you see that we got the senior people that we wanted:



And they have key technology responsibilities we were looking for – strong role in new technology selection/approval, strong role in vendor selection and a strong role in driving adoption:

What are your responsibilities regarding new technologies? (Check all that apply)		
Research new technologies	15	83%
Recommend new technologies	15	83%
Select new technologies	15	83%
Approve new technologies	14	78%
My job does not involve new technologies	1	6%
Other	2	11%

What are your responsibilities regarding technology vendors? (Check all that apply)		
Research potential technology vendors	15	83%
Recommend potential technology vendors	15	83%
Select potential technology vendors	14	78%
Approve potential technology vendors	13	72%
My job does not involve technology vendors	1	6%
Other	1	6%

What responsibilities do you have regarding the adoption of new technology by franchisees? (Check all that apply)		
Define programs that drive adoption	14	82%
Recommend programs that drive adoption	15	88%
Approve programs that drive adoption	12	71%
Fund programs that drive adoption	7	41%
Manage programs that drive adoption	15	88%



Handled by someone else in our company	0	0%
We don't care about adoption of new technology	0	0%
We don't specify new technology to franchisees	2	12%
Other	1	6%

TECHNOLOGY ROLLOUTS

We wanted to understand how franchisors rollout technology to franchisees (tactics) and how well that process is working. From the table below, you can see that most rely on mandates or an internal team who has that as a secondary job responsibility.

How do you convince franchisees to purchase new technology solutions that you specify? (Check all that apply)		
Rely on mandates/UFOC	10	56%
Use internal team - convincing franchisees is a background priority	9	50%
Rely on the "if you build it, they will come" theory	7	39%
Use internal team - convincing franchisees is their primary priority	7	39%
Rely on technology vendors	5	28%
We don't recommend technology to our franchisees	1	6%
Use a 3rd party professional sales and marketing company	0	0%
Don't know	0	0%
This is not important to us	0	0%
Other, Please Specify	4	22%
Work with franchisee groups for peer influence		
Business rationale - Needs to show a benefit		
Proof of concept w/ROI to show benefits of adoption		
Haven't previously pushed technology		



We weren't surprised that the use of mandates was the most common tactic in convincing franchisees to adopt new technology. We were curious as to what franchisors had experienced regarding the use of mandates:

What has been your experience with mandates? (Check all that apply)		
We found mandates are helpful but not sufficient	10	56%
We discovered that mandates can alienate franchisees	7	39%
We are thinking of adding mandates to our UFOC	5	28%
We have no experience using mandates	4	22%
Other (*don't exclusively on mandates but most have 1*)	1	6%
We rely exclusively on mandates	0	0%

From the table above, we conclude that mandates are helpful but they are only part of what's needed to convince franchisees to adopt new technology. And if relied on too heavily, they will turn franchisees against you.

Lastly, we wanted to know how companies handled franchisees that ignored mandates:

How do you handle franchisees that ignore a mandate?
Compliance Process
It becomes a compliance issue and can lead to a legal process.
Currently hardly anything but it is gradually changing
Usually, these franchisees are involved in various violations of their franchise agreement, so defaults are issued in extreme cases.
Expect them to have a system that meets our specifications
Don't handle it at all
We rarely mandate. But if they ignore, it really depends on the situation. We can be tough and soft.
Legal proceedings pursuant to the license agreement.
Legal action if necessary. Removal of certain "Good Franchisee" financial incentives
Work with them.
Default them.
Give them deadlines and reasonable ROI to show them the value.



We wanted to know how the current adoption tactics are working. But what criteria were most important to franchisors? From the table below, the number one criteria is franchisee satisfaction, followed by smoothness of the adoption.

Please rate the following factors when rolling out new technology to franchisees.						
Top number is count of respondents, bottom is % of respondents.	1	2	3	4	5	6
	Very important	Important	Somewhat important	Not important	Don't know	n/a
Overall adoption rate	7 39%	9 50%	1 6%	0 0%	0 0%	1 6%
Speed of adoption	3 17%	11 61%	3 17%	0 0%	0 0%	1 6%
Cost of rollout to your company (not franchisees)	8 44%	5 28%	4 22%	0 0%	0 0%	1 6%
Smoothness of adoption	8 44%	9 50%	0 0%	0 0%	0 0%	1 6%
Satisfaction of franchisees	14 78%	3 17%	0 0%	0 0%	0 0%	1 6%

And from the table below, you can see that in general, franchisors are satisfied with the overall adoption rate. It's the path to achieving it that needs improvement especially in terms of cost and timeliness.

Please rate your last major rollout of new technology to franchisees with respect to:						
Top number is count; bottom is % of respondents.	1	2	3	4	5	6
	Very Good	Good	Poor	Very Poor	Don't Know	n/a
Overall adoption rate	6 33%	10 56%	0 0%	0 0%	0 0%	2 11%
Timeliness of adoption	4 22%	10 56%	2 11%	0 0%	0 0%	2 11%
Cost of rollout to your company (low cost = very good)	5 28%	7 39%	0 0%	3 17%	0 0%	3 17%
Smoothness of adoption	3 17%	12 67%	1 6%	0 0%	0 0%	2 11%
Satisfaction of franchisees	1 6%	13 72%	1 6%	0 0%	1 6%	2 11%

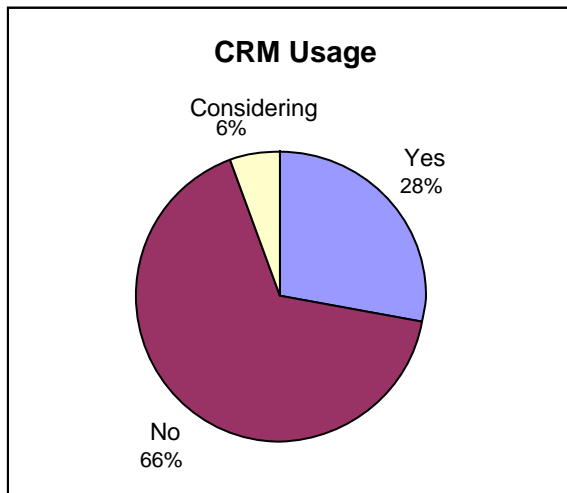
FRANCHISEE DATABASES AND INTERACTION MANAGEMENT

A current franchisee database and history of interactions are very useful in driving the adoption of new technology. We wanted to know what type of information franchisors managed regarding their franchisees. We divided it into 5 distinct segments so we could measure the state of each.

You can see from the table below, there are two segments most franchisors need better information: restaurant contacts data and restaurant technology data.

Please rate the state of your franchisee database(s) regarding the following information:					
Top number is count of respondents, bottom is % of respondents.	1	2	3	4	5
	have it, works fine	have it, needs updating	don't have, don't need	don't have, need it	don't know
Franchise owner information (name, address, phone, etc)	13 72%	5 28%	0 0%	0 0%	0 0%
Restaurant information (address, phone, store #, etc)	17 94%	1 6%	0 0%	0 0%	0 0%
Restaurant contacts information (mgrs, phone, email, etc.)	5 28%	9 50%	3 17%	1 6%	0 0%
Restaurant technology information (POS, back office, etc.)	9 50%	6 33%	0 0%	3 17%	0 0%
General interactions (eg, requests, complaints, etc.)	9 50%	6 33%	1 6%	2 11%	0 0%

A CRM solution is the most common way to collect and manage the types of franchise data and franchisee interactions noted above. When we asked about CRM usage, you can see from the chart below that only about 1/4 of the franchisors are using CRM to help them manage their franchisee related data and interactions.



TECHNOLOGY SATISFACTION

The table below shows franchisor satisfaction with key franchise technologies already deployed:

- Satisfaction – wireless headsets, customer loyalty



- Dissatisfaction – back office, cashless payments

Note: "looking to replace" could be driven by dissatisfaction or simply the need for new capabilities so we treated it neutrally.

Please rate your satisfaction with the following technology solutions in use by your franchisees.			
Top number is the count of respondents; bottom is percent of respondents shown.	1 Satisfied	2 Unsatisfied	3 Looking to replace
POS	7 50%	3 21%	4 29%
Supply Chain	7 78%	2 22%	0 0%
Back Office	8 67%	3 25%	1 8%
Order Confirmation	6 75%	1 13%	1 13%
Customer Loyalty	4 100%	0 0%	0 0%
Menu Boards	4 67%	1 17%	1 17%
Cashless Payment	10 77%	3 23%	0 0%
Video Surveillance	4 80%	0 0%	1 20%
Wireless: headset	5 100%	0 0%	0 0%
Wireless: tableside	0 0%	0 0%	0 0%
Wireless: Internet	4 80%	0 0%	1 20%
Kiosks: employees	1 100%	0 0%	0 0%
Kiosks: customers	1 50%	0 0%	1 50%
Broadband Service	8 80%	1 10%	1 10%
Bus. Intelligence	7 88%	1 13%	0 0%

To see which technologies are most in demand, we merged the "looking to replace" with the "looking to add" responses. This is meaningful because each franchiser could choose only one answer for each technology area. We get the following as "technologies in greatest demand":

Percent of participating franchisors looking to replace or add the specified technology	
POS	39%



Broadband Service	17%
Video Surveillance	17%
Customer Loyalty	17%
Back Office	17%
Menu Boards	11%
Cashless Payment	11%
Wireless: Internet	11%
Bus. Intelligence	11%
Order Confirmation	6%
Supply Chain	6%
Kiosks: customers	6%
Wireless: tableside	0%
Kiosks: employees	0%
Wireless: headset	0%

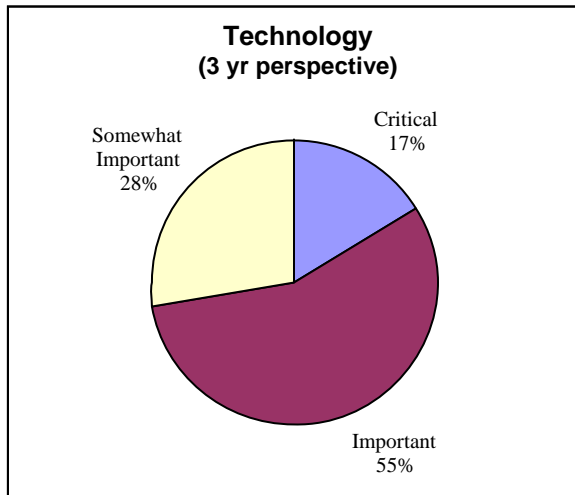


LOOKING TO THE FUTURE

Franchisors deploy technology to meet the challenges they anticipate facing. From the table below, you can see the top challenges are: revenue growth, employee training and quick response to market changes.

Which of the following do you consider your top challenges over the next 18 months? (Check all that apply)		
Revenue growth	15	83%
Employee training	11	61%
Quick response to market changes	11	61%
Competition	8	44%
Supply chain improvements	7	39%
Loss prevention	6	33%
Employee recruiting	5	28%

We wanted to understand how the franchisors rate the importance of technology over the next 3 years. It should give some insights into how they feel it can help them address the above problems.



You can see that 73% feel technology is either important or critical to their success over the next 3 years.



What technologies will be deployed/refreshed over the next several years to help them address these challenges?

Please estimate the timing of your next refresh or initial rollout for the following technology solutions.						
	1	2	3	4	5	N/A
	2006	2007	2008	2009	unknown	
POS	3 17%	3 17%	6 33%	2 11%	4 22%	0 0%
Supply Chain	1 6%	4 24%	1 6%	1 6%	4 24%	6 35%
Back Office	3 17%	6 33%	2 11%	2 11%	2 11%	3 17%
Order Confirmation	2 11%	0 0%	0 0%	1 6%	7 39%	8 44%
Customer Loyalty	2 11%	2 11%	1 6%	0 0%	8 44%	5 28%
Menu Boards	0 0%	4 22%	0 0%	0 0%	5 28%	9 50%
Cashless Payment	4 22%	3 17%	0 0%	0 0%	7 39%	4 22%
Video Surveillance	2 11%	1 6%	0 0%	0 0%	7 39%	8 44%
Wireless: headset	1 6%	3 17%	0 0%	0 0%	3 17%	11 61%
Wireless: tableside	0 0%	0 0%	0 0%	0 0%	2 11%	16 89%
Wireless: Internet	2 11%	1 6%	1 6%	0 0%	5 28%	9 50%
Kiosks: employees	0 0%	1 6%	0 0%	0 0%	5 28%	12 67%
Kiosks: customers	2 12%	1 6%	0 0%	0 0%	3 18%	11 65%
Broadband Service	2 11%	4 22%	1 6%	0 0%	4 22%	7 39%
Bus. Intelligence	1 6%	2 11%	1 6%	0 0%	6 33%	8 44%

We asked if there were any other technologies under consideration:

What other technologies are on your radar screen and why?



Labor Management
Polling
Enterprise dashboard reporting
Faster IPsec connections in the store
Theoretical food cost program

We asked about top challenges regarding technology to franchisees or in general.

What are your top challenges regarding new technology to franchisees or in general? (You can also include any final thoughts here as well)
Won't be news to you Ken, but it's cost, cost, and cost. Recommending/mandating things typically meet with resistance - and the greater the price tag the greater the resistance.
Continue to refine proprietary tools introduced over the past 24 months, relating to Food Cost, Ordering, Labor Scheduling, Cash Management
Franchisee's understanding the value of the technology
Size of our system - 84 countries. Rate of adoption; many initiatives needed to catch up.
Cost, Rollout Acceptance and Adoption
Minimizing costs to both our company and the franchisees
Adoption
Franchisees having enough money to purchase new technology, enough new franchisees to implement technology
Gaining buy in from franchisees. Working with vendors that deliver on their service promise after the initial sale.
Walking the thin line between reasonable price and
Establishing a high perceived value for the contribution technology can make on the profitability of business.
Adoption due to past experiences within the parent organization. Initial cost of a system, may prevent some from purchasing if they cannot see the cost benefit.
Lack of mandate authority and lack of standardization
Cost and ease of use.

And from the responses above, you can see that a few themes dominate: **keep the cost low and drive faster and greater adoption.**