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2007 FRANCHISEE TECHNOLOGY ADOPTION SURVEY

The adoption of new technology can be a contentious time in the franchisor/franchisee relationship. The results of the 2007 Franchisee Technology Adoption Survey can help.

ROLLING OUT NEW TOOLS//

In August 2006 Frantz Group conducted a survey of quick-service restaurant franchisors on the topic of technology. The intent of the survey was to better understand the relationships between franchisor and franchisees with regard to new technology selection and rollout.

In that survey, the Frantz Group found franchisors' No. 1 criterion when rolling out new technology to franchisees is franchisee satisfaction. Top challenges regarding rolling out technology to franchisees were keeping costs low and making adoption faster and broader among franchisees. Mandates were the No. 1 tactic used by franchisors to drive technology adoptions, but participants realized that strategy had its flaws, namely that mandates are not always successfully adopted and often alienate franchisees instead. In 2006, the top technologies as measured by "looking to replace" plus "looking to add" were POS, broadband service, video surveillance, and back-office tools. Franchisors cited revenue growth,

employee training, and quick response to market changes as challenges they anticipated facing well into 2007. Interestingly, few planned to turn to kiosks as a solution for any of those issues.

In 2007 Frantz Group decided to do a parallel study of franchisees to determine how franchisee perceptions were the same or different from those of their franchisors.

Overwhelmingly, though, franchisees want more control and more choices in the technology rollout process than currently allowed by franchisors.

Franchisees rely on technology to free up their time, create efficiencies, improve customer satisfaction and loyalty, increase revenue and profitability, optimize labor/staffing, and stay ahead of competition.

Highlights of that survey include the news that franchisees see a very strong and important relationship between the success of their

business and technology. Franchisees look to their franchisors for vision and direction in selecting new technologies—particularly as it relates to defining the technology roadmap for their stores. Overwhelmingly, though, franchisees want more control and more choices in the technology rollout process than currently allowed by franchisors. Franchisees' top concerns regarding technology adoption include: cost of maintenance/support, training/knowledge to use it, and installation headaches.

Also according to the survey's finding, franchisees view the technology acquisition experiences as the weakest area of solution support and training. The biggest reasons franchisees invest in technology are to improve operations and to increase revenue. Results show that franchisees recognize that franchisors typically have superior resources and

TOP BRANDS IN THE SURVEY

Arby's
Baskin-Robbins
Blimpie Subs
Burger King
Carl's Jr.

Checkers Drive-In/Rally's
Church's Chicken
Cold Stone Creamery
Dairy Queen
Domino's Pizza

Dunkin' Donuts
Fazoli's
Hardee's
KFC
Krystal
Little Caesars Pizza

Long John Silver's
McDonald's
Papa John's Pizza
Papa Murphy's Pizza
Pizza Hut
Popeyes Chicken and Biscuits

Quiznos Classic Subs
Sonic Drive-In
Subway
Taco Bell
Wendy's

2007 FRANCHISEE TECHNOLOGY ADOPTION SURVEY

bandwidth to research new technologies and prospective vendors, as well as a larger base to test new technologies in the store environment. However, franchisees would prefer that franchisors rely on pre-negotiated deals with multiple qualified vendors, giving franchisees an opportunity to make an informed decision on the final vendor.

Many franchisee respondents reported negative experiences about specific technology mandates and recommendations that have occurred in the past. As a means to alleviate those negative perceptions, franchisees suggest that when mandating specific technologies or vendor solutions, franchisors offer specific examples of ROI from other franchise locations

Franchisees want to have a voice in the entire technology acquisition process, from selection to implementation.

or corporate stores to help franchisees fully understand the expected benefits and return on investment.

Franchisees want to be consulted to help shape the brand's technology road map. They want chosen solutions to be fully tested in a real store environment. They want better communication from their franchisor about what to expect and when. They want more choices as far as vendors are concerned. They want more education on the solutions, and a clearer understanding of benefits and return on investment. They want more tightly managed, smoother implementation processes. They want training on how to use the new technology.

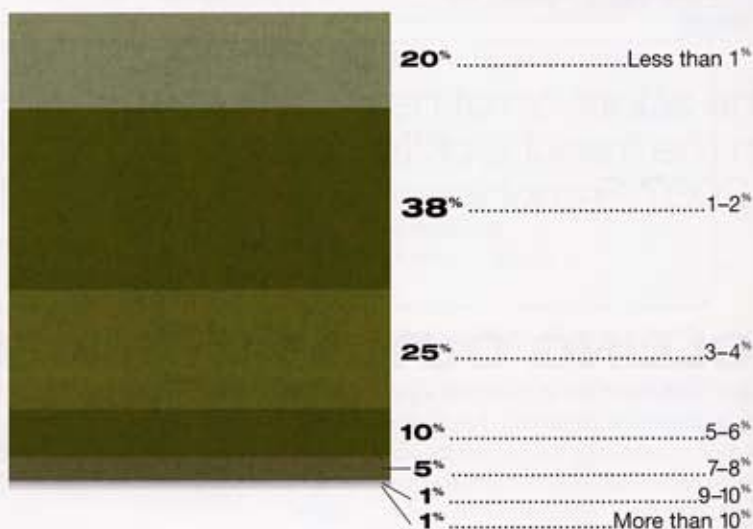
It is also clear that franchisor-driven technology rollouts can be contentious topics for franchisees. The vast majority of franchisees are small business owners, owning only a handful (often one) store. They are entrepreneurial in nature, as evidenced by their desire to own and run their own business. And they can sometimes bristle at franchisor decisions made without their involvement, particularly when those decisions require investment of franchisee dollars.

To put it plainly, franchisees want to have a voice in the entire technology acquisition process from selection to implementation. >>

TECHNOLOGY SPENDING

The retail industry's average technology spend rate is in the 1.5 percent to 1.7 percent of revenue range. The average spend rate from our survey is a bit higher than that—an average of about 2.5 percent, slightly more than 40 percent spending 3 percent or more of revenue on technology. This higher spending could be attributed to the quick-service environment where small efficiency gains can mean big bottom-line savings. The 20 percent spending less than 1 percent will find it challenging to keep up with the competition as well as their franchisor technology recommendations.

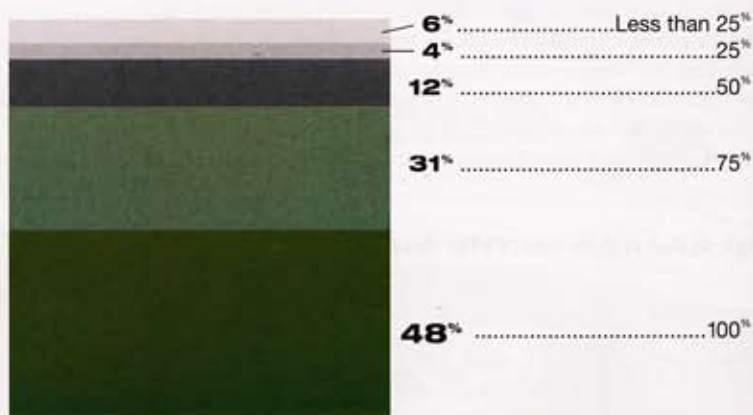
What percent of revenue do you spend on technology?



MANDATE COMPLIANCE

Approximately half of the franchisees surveyed are 100 percent compliant with their franchisors' technology recommendations. And nearly 80 percent are in compliance with 75 percent or more. It is possible that some franchisees lag in compliance due to the robust rate at which new technology is being introduced. One explanation could be the lack of franchisor requirements and mandates in certain areas (e.g., broadband, video surveillance) that are not yet considered critical.

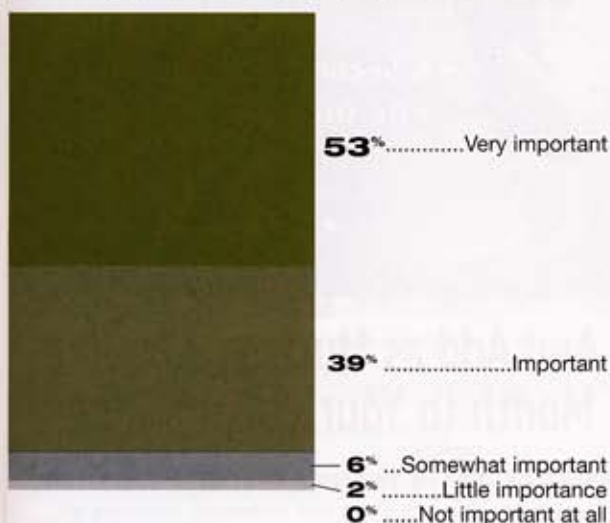
On average, how well do your restaurants comply with your franchisor's recommendations and mandates regarding technology?



TYING TECHNOLOGY TO PROFITS

It's very clear that despite all the challenges surrounding technology, franchisees link technology quite closely to the success of their franchise business. More than half say technology is very important to their success, while only 2 percent say it has little or no importance. This is a very strong relationship, which means franchisees must be seeing the benefits of technology translating to their bottom line.

How important is technology to the successful operation of your quick-service restaurants?



RATING THE ADOPTION PROCESS

Most of the challenges occur at the end of the adoption process. It probably comes as no surprise that ongoing support needs the most work, followed next by training. Franchisees also struggle with trying to select which type of technology would give them the most value. For example, should they upgrade their POS or install a video surveillance system or a kiosk.

Rate how well each step is working for your business.

	VERY WELL	ADEQUATE	BORDERLINE	NOT SO WELL	BROKEN	N/A
Selection of technology, not a vendor	18%	54%	23%	4%	1%	0%
Purchase	21%	58%	15%	5%	1%	0%
Installation	21%	53%	18%	6%	1%	1%
Training	16%	44%	28%	10%	2%	1%
Support	13%	43%	28%	12%	4%	1%

FRANCHISEE WISH LIST

When asked which new technologies are on their radar, franchisees responded most often with:

- Customer-Facing Displays
- Digital Menuboards
- Handheld Wireless Devices
- Online Ordering
- POS Systems
- Security Systems
- Kiosks

ADOPTION CHALLENGES

When asked about the top-three challenges affecting the adoption of technology, franchisees cited cost to maintain technology, training, and issues around installation as major concerns. Three other challenges were mentioned several times under the "other" category: cost, keeping up to date on new models, and reliability.

What are your top-three challenges regarding technology adoption?



SOURCE: 2007 FRANCHISEE TECHNOLOGY ADOPTION SURVEY

2007 FRANCHISEE TECHNOLOGY ADOPTION SURVEY

PURCHASE INFLUENCERS

It's been noted that franchisees have some problems selecting which technology to purchase when trying to improve their business. However, there's no uncertainty as to what they want from the technology. At the top of the list was increasing revenue followed closely by improving operations and then improving customer experience. It's worth noting that cost was mentioned, but it's a relatively weak consideration. And surprisingly, franchisor recommendations and mandates are not viewed as overly important. Perhaps that's because they are rarely in conflict with the top franchisee goals.

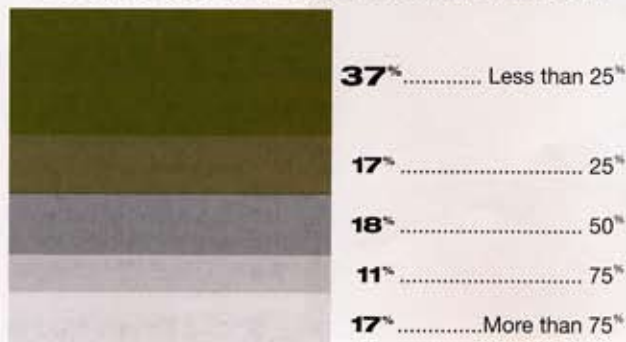
Rank the influence of the following factors when deciding which technology to invest in to improve business (1 is most important).

Increases revenue								
1	2	3	4	5	6	7	N/A	
41%	19%	18%	12%	5%	4%	0%	0%	
Improves operations								
1	2	3	4	5	6	7	N/A	
38%	40%	14%	4%	1%	0%	1%	0%	
Provides a competitive advantage								
1	2	3	4	5	6	7	N/A	
4%	8%	22%	32%	20%	10%	4%	2%	
Improves customer service/enhances customer experience								
1	2	3	4	5	6	7	N/A	
23%	26%	27%	16%	5%	0%	2%	1%	
Recommendations/mandates from franchisor								
1	2	3	4	5	6	7	N/A	
5%	6%	8%	15%	19%	27%	13%	7%	
Cost of the technology								
1	2	3	4	5	6	7	N/A	
14%	15%	11%	16%	22%	17%	5%	1%	
Opportunity to be a technology trailblazer								
1	2	3	4	5	6	7	N/A	
2%	6%	9%	7%	8%	15%	42%	10%	

INDEPENDENT PURCHASES

Sixty percent of the franchisees surveyed indicated that they have purchased 25 percent or more of their technology independently, while only 25 percent report purchasing the majority of their new technology independently.

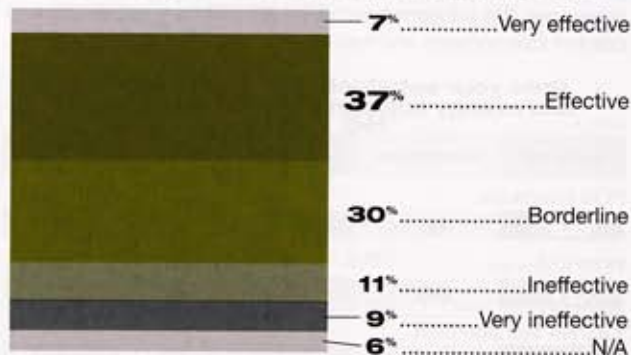
What percentage of your technology purchases are done independently—i.e., not connected to a technology rollout drive by your franchisor?



ROLLOUT EFFECTIVENESS

More than half of those surveyed indicated issues with their latest franchisor-driven rollout. This confirms what we know: Mandates and new technology rollouts can be complex, and can often be a source of animosity between the franchisee and franchisor if not handled effectively.

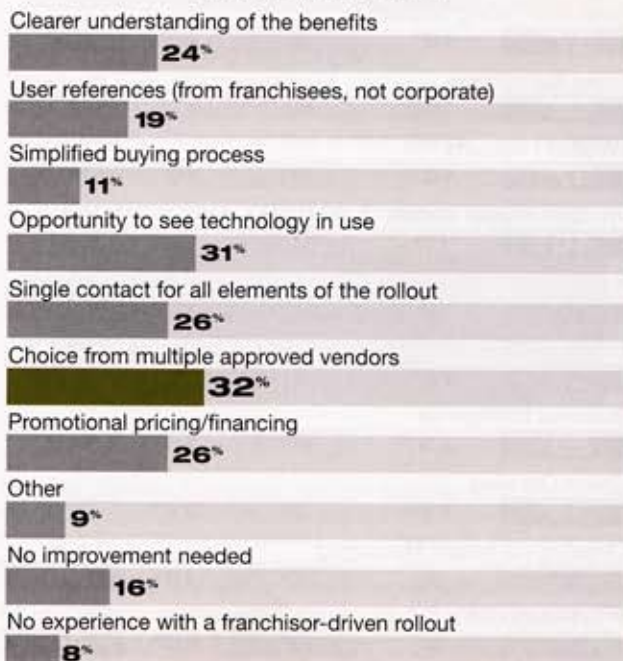
Rate the overall effectiveness of the technology rollout process (e.g., technology/vendor selection, communication, deadlines, etc.).



IMPROVING THE ROLLOUT PROCESS

One thing abundantly clear after reviewing survey results is that franchisees want choice. They recognize the resources, knowledge, scale, and leverage that corporate franchisors have in identifying vendors and negotiating competitive pricing. However, they want to be presented with more than one qualified vendor, and the autonomy to make the right decision for their specific store environment. More than 30 percent of those surveyed listed "choice of vendors" as the factor that would have most improved their last franchisor-driven rollout.

Which of the following would have improved your most recent franchisor-driven technology rollout experience?



2007 FRANCHISEE TECHNOLOGY ADOPTION SURVEY

EQUIPMENT SATISFACTION

Franchisees are least satisfied with customer loyalty, back-office, and point-of-sale software solutions. They are most satisfied with their point-of-sale hardware, wireless Internet access, and broadband solutions.

The top solutions being considered by franchisees include digital signage and customer-facing display systems—with more than 25 percent of franchisees looking to add or replace technology in these categories. Top solutions franchisees are looking to replace include point-of-sale software and hardware and back-office solutions.

Rate your satisfaction with the following technology solutions at your restaurants.

	SATISFIED	UNSATISFIED	LOOKING TO REPLACE	LOOKING TO ADD	NO INTEREST
POS Hardware	63%	15%	16%	4%	2%
POS Software	51%	26%	17%	4%	1%
Kitchen Management	47%	17%	9%	8%	20%
Back Office software	46%	27%	13%	6%	7%
Order Confirmation	49%	20%	7%	9%	15%
Drive-thru Timer	33%	13%	4%	10%	40%
Customer Loyalty	43%	28%	4%	17%	7%
Digital Signage	21%	17%	5%	23%	33%
Customer-Facing Displays	37%	19%	8%	18%	19%
Video Surveillance	52%	15%	8%	17%	7%
Wireless Headsets	37%	14%	8%	10%	32%
Wireless Internet Access	46%	11%	2%	19%	22%
Kiosk	10%	6%	2%	15%	67%
Broadband Service	53%	10%	3%	17%	17%
Business Intelligence	29%	23%	4%	16%	27%
Online Ordering	33%	13%	3%	22%	29%
Ordering Via Instant Messaging	6%	9%	1%	15%	69%
PCs/Notebooks	32%	8%	6%	14%	40%

EXPECTATIONS FOR FRANCHISORS

When it comes to technology, franchisees want to know what to expect. They want to know what technologies their franchisors will introduce within the next few years. They want to be consulted so that they are confident that their franchisors' technology road map was built around their unique needs. They want choice of at least two vendors to make the best decision for their specific situation. And most importantly, they want to make sure they fully understand the return on investment equation: What will be the impact of new technology and the return given their specific store environment?

What do you expect from your franchisor regarding new technology processes?

Annual survey of franchisee technology needs/issues

33%

One-to two-year technology road map—what, why, when, and cost

57%

Meaningful ROI data on new technology

59%

Involvement in new technology investigations

32%

At least two quality vendors for each technology solution

57%

I have no interest in franchisor's technology process

4%

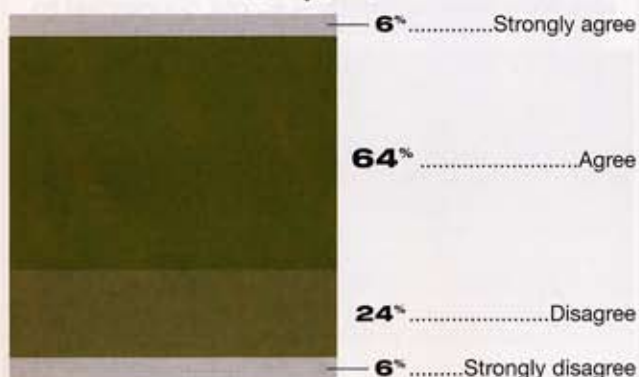
Other

4%

WORKING TOGETHER

Nearly 70 percent of franchisees surveyed indicated they agree or strongly agree with their franchisors' technology roadmap, meaning they agree with choices made in terms of which technologies to implement and when. It is abundantly clear that franchisees look to their franchisor for technology vision and direction.

I agree with my franchisor's technology road map/choices of which technologies to implement.



WHO IS IN CONTROL?

It appears franchisors control which technologies are implemented for more than 50 percent of franchisees surveyed. However, more than 80 percent of franchisors believe that franchisees should have more control, either complete autonomy or an equal vote in the decision-making process.

Nearly 70 percent of those surveyed indicated that their franchisor controls the short list of vendors for particular technology rollouts.

Eighty-five percent of franchisees believe they should have the autonomy to select the final vendor for a new rollout—or at least have an equal vote in the decision. Forty percent believe it should be solely their choice. This is significant, because less than half of that 40 percent believe that they should control the roadmap and vendor list. Essentially, the majority of franchisees believe their franchisor should play a significant role in developing the road map and identifying a short list of qualified vendors, but still strongly want choice in making the final vendor selection.

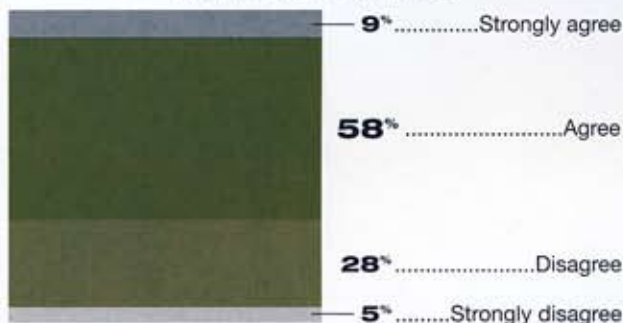
Regarding control over the various aspects of the technology adoption process:

Primarily Franchisor	50/50	Primarily Franchisees	Don't Know
Who controls the type of technology?			
52%	25%	22%	1%
Who should control the type of technology?			
19%	61%	20%	1%
Who controls the short list of vendors?			
68%	21%	9%	1%
Who should control the short list of vendors?			
23%	60%	16%	1%
Who controls the final vendor choice?			
50%	20%	30%	1%
Who should control the final vendor choice?			
13%	46%	41%	1%
Who controls the timing of adoption?			
58%	27%	14%	1%
Who should control the timing of adoption?			
12%	68%	18%	1%

AGGRESSIVE ACTION

The majority of franchisees seem to agree that their franchisors' technology road map is reflective of the appropriate level of aggression to remain competitive in their target markets. Less than 35 percent disagreed.

My franchisor's technology plan demonstrates the appropriate level of aggression to be competitive in our market.



EXPERT ADVICE

Despite occasional frustrations and hiccups, it is clear that a majority of franchisees have faith in their franchisors' technology vision. Seventy-two percent indicated that franchisor mandates help lead them down the right path regarding technology adoption.

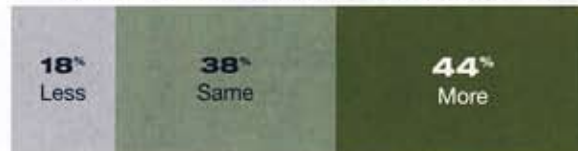
Do technology mandates/recommendations from your franchisor help your technology adoption process?



FUTURE EXPENDITURES

Nearly 44 percent of franchisees are planning to increase their technology spend year-over-year in 2008. Another 38 percent indicated they will maintain their current spends. Only 18 percent indicated they will spend less in 2008 than in 2007.

Estimate your 2008 technology spending relative to 2007 (on a per-store basis)



METHODOLOGY // Beginning in July 2007 and lasting approximately one month, Frantz Group and QSR magazine conducted an online survey targeting franchisees in the foodservice industry—primarily quick-serve and fast-casual brands. The project had several objectives: to understand franchisee technology needs; measure franchisee satisfaction with technology; gain insights into how franchisees adopt new technology; measure the value and importance franchisees place on technology; and understand the relationship between franchisees and their franchisors regarding new technology. ¶ The information was gathered July 23–August 29, 2007 via an online survey form. Participants were recruited via print and banner advertisements, as well as direct mail and e-mail to known franchisees. As part of the survey, participants were screened to be franchisees with a meaningful role in the selection, evaluation, specification, or approval of technology used to run their restaurant. Phone calls to participants who completed the survey to validate their responses were also made. ¶ Pertinent statistics regarding participation include: 879 visits to the survey Web site; 453 completed surveys (which included 94 partial completes); and 306 completed surveys that qualified. ¶ Participants were offered two incentives—a copy of the final report and a chance to win an Apple iPhone.