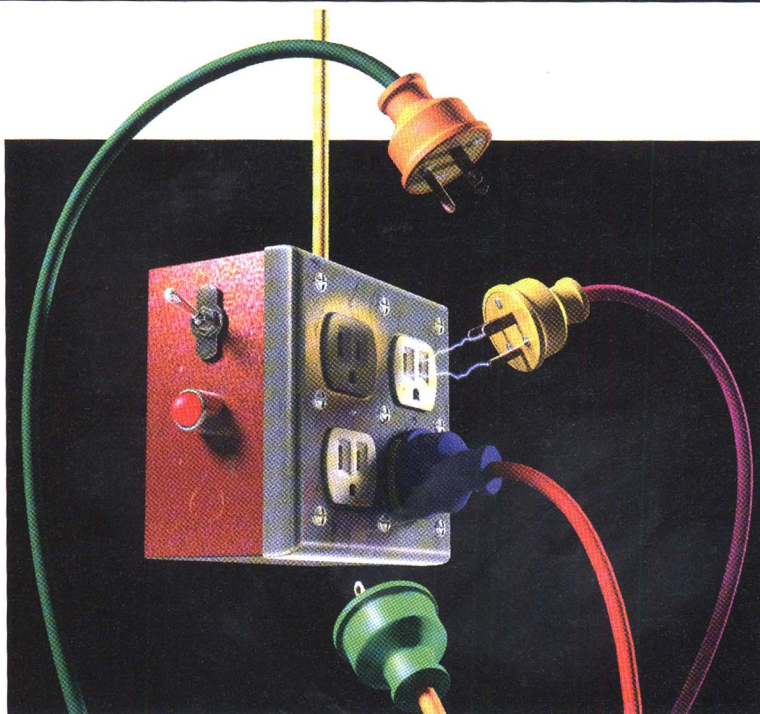


FINANCE & REAL ESTATE



Juggling Property Costs Look, feel, repairs important to business

By Beth Mattson-Teig

The question that many franchisees are struggling with is how to best allocate their limited financial resources for building improvements when there are so many other demands for those dollars.

After all, property repairs and maintenance are not exciting line-item expenses for franchisees—especially when budgets are stretched tight.

“Our franchisees are not doing cartwheels

over spending the money on property repairs and maintenance, but they understand why they have to do it,” says Josh Wall, vice president of development for Houston-based Christian Brothers Automotive Corp. “We are a premium level auto service provider. So the look and feel of our buildings is essential to delivering our brand promise.”

Christian Brothers currently has about 70 locations in nine states, and the company’s

Property Costs continued on 50

IN THIS SECTION

- ▶ **Juggling Property Costs** 49
Invest in the look and feel of your business in order to boost revenue
- **Who Pays?** 52
Taking a closer look at your landlord’s insurance just might ensure you aren’t paying twice
- **Evaluating Store Spaces** 53
Eight things to consider before selecting and purchasing a location
- **Sourcing Deals** 56
Mergers, acquisitions tips
- **Consumer Confidence** 57
CCI dropped a bit recently, and is in need of a boost
- **Financial Briefs** 58
Interesting tidbits and fiduciary facts

When times get tough, property repairs and maintenance are often the last thing items to be taken care of. But is that really such a good idea?

Property Costs continued from 49

growth plan is to open a total of 17 new stores in 2010.

Deciding how to prioritize spending is never easy. Franchisees have to juggle expenses in all areas of their business from equipment to employee benefits. But real estate is often a squeaky wheel that can't be ignored. Franchisees need to make prudent decisions because delays can impact sales or lead to bigger problems—and more costly repairs—if a problem goes unchecked.

“The question is where can a franchisee get the most bang for their buck,” says Leslie Fields, a partner in the Denver law office of Faegre & Benson. “How can they make the biggest overall difference for the money that they have in terms of what's necessary for capital repairs or improvements.”

Oftentimes, what business owners end up doing in tough economic times is putting money into the areas that are most visible to the public, such as the entryway and the exterior of the building.

Every business owner wants to ensure customers see the building and the business as attractive—and thereby will feel comfortable about shopping or engaging the services of the tenant. “Unfortunately, that means the things the public doesn't see, such as the heating and ventilation or electrical system, may suffer some neglect,” Fields says.

The key to preserving the quality of the property, and subsequently the business, is to make wise choices on where to spend available dollars. Some tips include:

- Keep the public areas well maintained,

attractive and clean;

- Don't cut corners in areas related to safety issues or code violations.

Following guidelines

Decisions related to a store or restaurant's operations and appearance are subject to the franchise agreement. The agreement requires the operator to maintain all aspects of the business, such as the building, equipment, landscaping, fixtures and furnishings, based on a certain set of standards. Every franchisor is different, but most agreements include detailed maintenance and repair provisions aimed at meeting or exceeding those standards.

That being said, franchisors do understand that it is a challenging environment for operators. “Franchisors are not going to overlook things that are going to represent a safety issue,” Fields notes. Yet franchisors are cutting operators a little slack when it comes to cosmetic improvements, understanding that many operators are working with a lean budget.

To this end, some brands are allowing franchisees to defer building repairs or maintenance as long as it doesn't harm the brand or affect business critical aspects.

“Most people are very fiscally responsible on how they are spending their money,” says Mike Cairns, director of franchise sales at Cousins Subs in Menomonee Falls, Wisconsin.

Similar to homeownership, when money is tight, you may put off bigger expenses such as re-shingling the roof. Some operators are deferring those non-essential expenses in the current economic climate, he adds.

Franchisors lend a hand

Many franchisors are stepping up and pro-

viding resources to help lessen the burden on franchisees for necessary repair and maintenance costs. “We try to make it as efficient as possible for the franchisee by negotiating decreased rates on packages, such as interior or exterior painting,” Wall says. The company can often negotiate a 15 to 20 percent discount on such package or group rates. In addition, Christian Brothers uses its own construction and property management staff to assist franchisees in finding qualified contractors in their area who can do the job, Wall adds.

Cousins Subs is working to provide the support, flexibility and resources to its franchisees that will make the transition to its new image easier for franchisees. Cousins Subs rolled out a new rebranding campaign last fall.

“We perceive this as a good time to re-engineer our stores and build them less expensively,” Cairns says.

Although Cousins Subs can require its franchisees to adhere to the new design standards when they renew their franchise agreements, the company is instead encouraging voluntary remodels.

Cousins Subs believes it first needs to set a solid example by reimagining its 15 corporate locations, which is currently in the works. “We realize we need to be proactive in renovating our own company stores before we require our franchisees to do those things,” Cairns adds. By undergoing the remodels in its own stores, the company also will have more concrete data to give to its franchisees on the extent of work and costs involved. In addition, the company has negotiated favorable rates for franchisees on signage, interior design and financing packages. **FT**