

Restaurant Chains Offer Incentives to Franchisees

By ANNIE GASPARRO

Restaurant operators are using incentives to encourage their franchisees to keep growing, despite the struggling economy.

Companies such as Papa John's International Inc. and Denny's Corp. are establishing lending programs, cutting back royalty fees and assisting their franchisees in other ways to push growth in new markets and help those in challenged ones, even if it hurts the company's earnings in the short term.

Don Graham, head of development for Papa John's, says it is tough, especially for small franchisees, to secure the proper financing for expanding in this economy. It also has become increasingly competitive among restaurant chains to win over the attention of large, lucrative franchisees.

"We're in a different position than many of our competitors, in that we have a minimal amount of debt, so we're able to help franchisees more...getting the right ones into the system, supporting them with these initiatives and helping them keep those stores open," he said.

These restaurant chains are betting that the new locations will perform well and remain open over the long term. As a result, the chains are pickier when choosing their franchisees and sites for expansion.

"They're demanding restaurant experience, not just an investor, when they are looking for franchisees," said John Gordon, a principal at Pacific Management Consulting Group, an advisory firm for chain restaurants.

The chains that offer these deals are the ones that are experiencing strong returns with their new stores, so a location opened through such a program is less likely to fail.

Under the Papa John's incentive program announced Thursday, qualifying restaurants opening in the U.S. in 2012 don't have to pay the franchise fee, saving them \$25,000; receive \$50,000 in equipment, including two pizza ovens; have their royalty fees waived through mid-2013; and earn a \$3,000 food credit with the chain's food-distribution company, as long as the res-



A Denny's server in Tempe, Ariz.

taurant is opened within 30 days after its original scheduled opening date. The program is generally available for new and current franchisees.

Meanwhile, Denny's has created a \$100 million lending pool for new and existing franchisees who open restaurants in underpenetrated U.S. markets.

Over a five- to six-year period, this could support growth of 75 to 100 new restaurants, Chief Executive John Miller said.

Denny's is also offering other incentives, including breaks on franchise and royalty fees that could total \$250,000 per unit.

Tepid consumer demand and pressure of commodity inflation has left some operators wary of expanding during the current tough economic times, but Mr. Miller argues the flip side. "It's a good chance for franchisees to take advantage of the conversion opportunities out there from all the restaurants or other retail stores that have closed because of the economy," he said.

Already, two Arizona Denny's franchisees have agreed to build locations in Philadelphia and upstate New York as part of the program.

Adel Farag, a Denny's franchisee, said the incentive program played a big role in his decision to open a new Denny's location in Philadelphia. Mr. Farag described the Denny's program as "one of most aggressive" in the field. "I was exploring other brands as well, but none of them come close to Denny's in their commitment to grow," he said.