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Michael Sherlock, the franchise whisperer

Sherlock **on the case**

A young company emerged last year in the franchising sector but with experienced heads well-placed to give advice. The Franchised Food Company appointed Brumby's Michael Sherlock to a key role and has since brought in other franchise-savvy players. So what does this mean for investors looking to open a franchise?

When an entrepreneur makes enough money to stop for a while and smell the roses, it's not unusual to find that doing nothing just doesn't suit their personality. That was certainly the case with Michael Sherlock, one of the founders of Brumby's bakery who sold the business and moved on.

But while swanning around the

Mediterranean might have seemed an ideal way to reap the benefits of a handsome business sale (though Sherlock maintains the dollars he pocketed are well below the figure of \$40m often quoted) the appeal soon wore off.

"Since I sold Brumby's I didn't want another full time job and I'm not one to play golf or yacht around. And I have a young family, my daughter starts school

next year, a son is in grade three. We went to live in the south of France for six months – we stayed three."

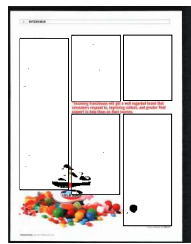
The temptation of business proved too great a pull so Sherlock set himself a target: food franchises.

"It's like a game of 500, when you start you look at your hand and think 'how can I improve it'? You play according to your cards and I decided to collect diamonds."

He started a consultancy, did some public speaking and is on the board of several businesses.

"When you're a CEO or MD you're in the trenches; you can't see too much. Now I fly over in a helicopter once a month," Sherlock explains of his

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consulting role after 30 years experience in franchising.

But then an opportunity emerged that had Sherlock hungry for more.

"A mezzanine finance provider had me looking at some businesses and Cold Rock Ice Cream was at a management buyout proposal. What did I like about it? Young kids love going there, it's a different demographic, very gen X and Y because you can design your own ice cream. My son gets the most disgusting flavours, because he can.

"My daughter gets strawberry and marshmallows because that's what princesses would have. You can't do that at Baskin Robbins. Both of them love the theatre of mixing the flavours, it really appeals."

Another attraction to the franchised ice cream model, says Sherlock, is its location away from high cost rental areas.

"It works on carbohydrate corners with other takeaways and restaurants; whether it's sushi or Chinese or Thai, there's not really a great argument for dessert," insists Sherlock. "This is a pretty good model."

The simplicity of the system appeals too. Sherlock still owns five Brumby's franchises which he regards as very complex with 200 products in the line-up, a perishable product that must be sold or thrown away, and success reliant on the skill of bakers.

"With ice cream, the USP is adding flavours, making it fun. And you can upsell, add on the extras."

Standard opening

hours of 10am to 10pm, no manufacturing, no skill levels required, and an easy to open and close procedure if you clean as you go, are all ticks on the scorecard for Cold Rock.

The system reminds him of Subway; its success due to a system that's easy to duplicate and that lends itself to multi-unit ownership.

"I'm on the board of Krispy Kreme – Cold Rock has the same thing, everybody you talk to loves it."

Expansion of the business is swift too, with store openings a focus for the previous owners. When Sherlock started negotiating the portfolio comprised 50 stores; there were 86 when he began consulting.

"Incoming franchisees will get a well regarded brand that consumers respond to, improving culture, and greater field support to help them on their journey."

"Most franchise systems struggle around 30 to 40 units. Once you start employing people, you run out of capital, this is a really critical stage," explains Sherlock.

"Cold Rock is over this. It has been around long enough. But it is in dire need of a lot of attention to detail and support for franchisees."

"Sometimes I don't realise how much I know. I've learned what I know by making mistakes."

Any franchise system should aim to make money out of licence fees, not through opening new stores, he cautions. "It's fun to open stores but then you need to support franchisees going through every stage of their business journey."

Sherlock recommends a ratio of one field support to 18 franchises or 1 to 25.

"We want to put in really good systems of field support to help franchisees grow. Small business owners have a thousand little decisions to make. Our franchisees have to follow systems, just apply them and focus on customer service."

In his words, the company has gone through rapid growth but a number of bricks are still not in place. "At this size you can afford marketing, management, training, IT, property, a general manager purchasing.

Sherlock spoke to franchisees at the company's annual convention about how the franchise can improve and found all

franchisees really crying out for ideas and support; most want to open another store.

"We don't see that as a profit centre," he adds. Sales should be showing 10 to 15 per cent annual growth year on year.

The outlook is good, says Sherlock. The business has potential for growth, refinement, and a focus on store culture. The dangers lie within the franchise community; getting franchisees to focus on and join in the program is imperative.

"There is a process of accepting change and moving on. If you bring too much change too soon, the community won't come with you," he warns.

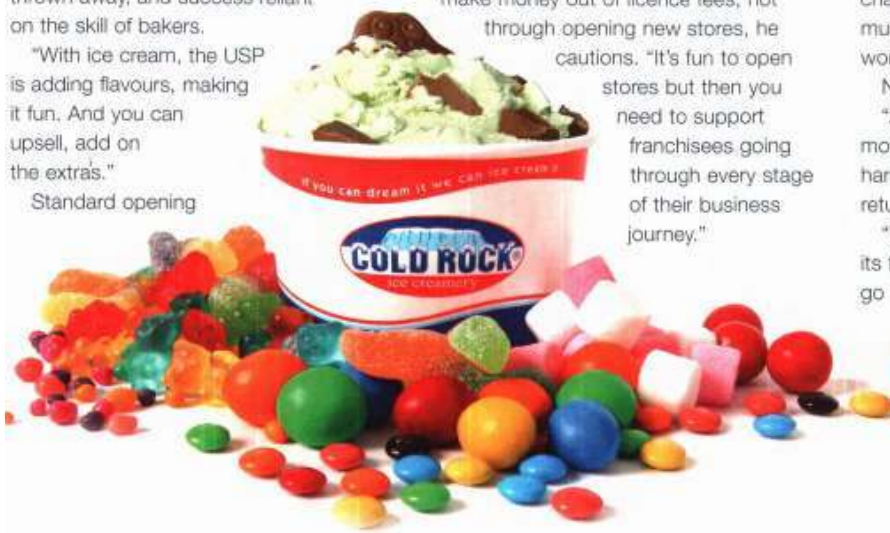
Not doing anything is also a danger. "All franchisees are happy making money. Franchisees have to be working hard and they will get a reasonable return on their investment."

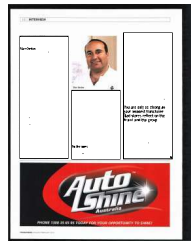
"That's why Brumby's was successful, its franchisees were happy. You have to go in with your eyes open."

Creating a good franchise community culture, getting everybody talking and happy is essential.

"Incoming franchisees will get a well regarded brand that consumers respond to,

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 improving culture, and greater field support to help them on their journey."

Stan Gordon

In September 2009 the Melbourne-based Franchised Food Company was formed to house the interests of Mr Whippy, Pretzel World and latest purchase, Cold Rock Ice Creamery. Stan Gordon is the founder and chairman.

The South African's background is in advertising and marketing. He has been in Australia 14 years.

"I understand multi-site retailing. I bought Mr Whippy, Pretzel World and then Cold Rock. I decided to grow by acquisition."

"This is a new era. It's the biggest Australian owned ice creamery. And Michael is a wonderful asset to the business."

After turning around Mr Whippy the next challenge was Pretzel World, which needed franchise systems and marketing finesse.

"I think we can get to 200 stores and Pretzel World can grow significantly – there are 15 outlets in Victoria and NSW. We will be opening in Surfers Paradise early this year."

Gordon predicts a future too in co-branded stores: one franchisee with both brands under their belt; a winter and summer offer.

"Each site is its own business and we



Stan Gordon

respect franchise owners, and provide them with marketing, system support and buying power. Small business is hard.

"You are only as strong as your weakest franchisee. Bad stores reflect on the brand and the group. Franchisees expect a decent return on their investment."

Franchisees invest not just in the brand but the business behind it and Gordon has his eyes on further expansion.

"We'd look at another acquisition, something in the fun treats market," he confides.

On the team:

Michelle Sprenger is business manager, and like Michael Sherlock, has notched up Brumby's experience; she was

Queensland manager for eight years. Sprenger also had responsibility for the state's Ella Bache business.

"A successful franchise system is based on a strong culture, training, relationship building, respect and working towards common goals for both the franchisee and the franchisor," she believes.

Her focus will be marketing, training, induction and the consistency and strength of the brands in the group.

Ryan Maletsky is general manager of administration and finance.

His experience includes the role of group financial manager of Mr Delivery, an 80 store marketing and distribution franchise system involving the home and office delivery of restaurant and take-away food.

You are only as strong as your weakest franchisee. Bad stores reflect on the brand and the group.

"A successful franchise system is based on the understanding that each franchised business is unique even though it's part of a wider system," Maletsky says. "Franchising can be compared to an orchestra – all instruments must be played in perfect harmony. The role of the general manager of administration and finance is that of the conductor." ■