Regional Developer

David Glover, Texas Regional Developer

<<Peter Holt Introduction>> And now I would like to introduce David Glover. David Glover is a very sophisticated franchisee. He's actually the very first regional developer that this company ever had. And he's continued to outperform all of our other regional developers. You'll see it in his presentation. He and his team were our Regional Developer of the Year in 2018. They were Regional Developer of the year in 2016. They've done an amazing job utilizing this model as a regional developer to really accelerate the growth in the territories that he's a part of.

And so I'm going to ask David to come and join us. Let's give him a great round of applause.

<<David Glover, Regional Developer>>

Can you all hear me? Awesome. All right, this one on the right. All right, hang on. And they've moved my speech around just to confuse me. All right. Well thank you, Peter, for having me here today. Greatly appreciate it. This is very exciting to talk to this group of people. The – this will be the first time I've ever spent 30 minutes with you in a meeting, and I do all the talking. Hope I don't get in trouble for that. As Peter said, my wife Anne and I are the regional developers for Houston, Dallas-Fort Worth, Austin and San Antonio, Texas. We were the first regional developers into the system back eight years ago.

A little background on myself, just to start. I got started with an accounting degree from the University of Texas in Austin. I then went into Public Accounting for three years through Anderson. And at that point, I said, I don't want to be an accountant for the rest of my life, sorry, Jake. And a family friend introduced me to a guy who is a young real estate developer starting out, and I said, what the heck. And I went ahead and I started out first building an office building, overseeing and constructing an office building for product manager and leasing. And that was where it was started.

Ultimately, I became President of the firm and partner with him. 20 years later, our company thrived despite the oil downturn in Houston. And then after 20 years, in late 2003, I sold out to my partner. So I was 46 years old, and that was like too young to retire. And Anne and I only knew real estate well, that had been our background. And by the time I was done selling the company, it was 2004, and I saw that there was a real estate crisis coming a few years from then, so I did not want to go load up on real estate right then. So what do we do?

Well, we talked to some franchise brokers because we did not know what else to do. And one of them told us about a concept that had just started, it's a very let alone concept called Massage Envy. And there was only 15 or 20 of them in the nation at that time. And our family told us we were nuts. So – don't worry, Peter, I'm not here today to talk about Massage Envy, I'm here to talk about The Joint. But I'm going to tell you a little bit about my experiences there because it formes a basis for us going forward.

So after our families told us we were crazy, we bought three licenses to open three clinics in Houston. Well, they wanted to do these little 1 mile circles, and I drew them on the map, and I see Richard back there going, drawing on maps, I like that. But we had circle cleavage and stuff, and I was like, don't – I'm not controlling that whole area. So I said, why don't we do this rectangle? It's less square miles but it's more efficient and gives me control of that area. So we did a clustered rectangle for three clinics in that rectangle in the heart of Houston, Texas in the River Oaks, Galleria and Memorial areas of Houston, if any of you all are familiar.

So clustering is really powerful and it provides shared local print advertising. And back when we started, the Internet was just getting going. We didn't have a lot of digital marketing. So also, we were able to easily share employees between our clinics. Okay, you work today at River Oaks, we need you over tomorrow at the Galleria, well it's only 10 or 15 minutes apart, no big deal. Also our customers were migrating back and forth in that area and so we were sharing the same customers in our clinics, which resides. So they were getting our level of service, which they are all the same but our's is special.

So we opened our first three clinics in 10 months. I mean we kind of hit it hard. We subsequently bought two more licenses. So we ended up with five licenses after four years in Houston. We have this powerful rectangle. Our River Oaks clinic, which was our first one to open, was a number one massage Envy in the United States out of 800 clinics, so it was cranking.

So what did we learn from this? Well, Massage Envy taught us the incredible power of the regional developer model. You remember I said when we got into Massage Envy, it had only 20 units? And then four years later, we were number one out of 800? Regional developer model, that's explosive growth. That's incredible. It also taught us about the advertising co-op system and advertising co-op is where all the franchisees in a region or a city get together and they pool their money and they buy advertising they can't afford to buy individually. For example, radio, TV. They do a lot of big events together.

And so co-ops are incredibly powerful. The other thing we learned in – from Massage Envy was brand building. I mean it's important to build the brand, the people know – that's Massage Envy, that's The Joint not that's Joe's chiropractic place. So that's incredible and we learned about clustering of the real estate. So what we – from the shortfall we saw in Massage Envy were, we were the only one that was really clustered. Everybody was else was one here and one there. I remember there was a Massage Envy in North Phoenix and one in South Phoenix and we were like, oh God, it takes an hour to go between the clinics. And that was bad design.

So the other problem was they were selling licenses on a to be determined basis. People would buy a license but didn't have real estate attached. And I saw that and I thought people were going to kill each other. So I was like, okay, I'm going to make sure that people know where they're going from the get-go. So I did not want to have to be determined licenses floating around. So after four years, we sold all four of our – all five of our clinics. And due to the strength of the recurring cash flow model and the memberships we sold on a 6x multiple, we sold it for $6.25 million cash, and that was pretty nice. I'll tell you the best part. We already have this scheduled trip that was two days after our closing to go for two weeks to Tuscany. So we closed and we went to Tuscany for two weeks. That was the best part. And all the time we were there, we were like, oh we're not getting our daily reports, why not? Because we don't own it anymore.

Okay. So let's talk about The Joint now, no more mention of the Massage Envy. So now we can check being a franchisee of our list and it's time to be a regional developer. Well, that other concept I won't mention again was funded by a guy named John Leonesio here in Phoenix. And when an investor group came in and bought the original Joint that had been founded by a chiropractor long ago and it was kind of semi-dormant. They were bringing John in as a CEO, and I used to talk to John, and we talked about what was going on and what do we see out there. And he told me about this.

So we, Anne and I, immediately flow out to Scottsdale and sat down with John. And we said we want Houston, Dallas, Austin and San Antonio, and we ended up buying 58 licenses that time. So what does that mean we bought 58 licenses? I thought franchisees buy licenses? Well, a regional developer pre-buys them for inventory, if you will. So we would pay $0.25 on the dollar. So if our license costs $30,000 to the franchisee, as a regional developer, we would pay $7,500 in advance.

So we bought 58 licenses, $7,500 – $7,508 each. That was about $425,000 back then. So that was our buy in of the poker game. So you're going to say what is a regional developer? What do they do? Well, we develop regions. That's real simple, right? The – oh, I'm totally sure. I had these 58 licenses, but I wasn't quite sure what we did or how to do it. So being the CPA nerd I am, I went out and bought a book, and I bought this book, Grow to Greatness: How to Build a World-class Franchise System Faster?

And I said, boy, what a great game plan. And I bought this book brand-new, and you can see I actually used it quite a bit. I learned a lot from it. So that was embarrassing. I hate to say I learned a lot of this from a book. So what a regional developer does is we award franchises. Now awards is a fancy word for sells franchises. We generally prefer people that live in that town and even near their clinic location, so we can leverage off their relationships that they have, whether it's with the Chamber or other groups.

The other thing a regional developer does is we support our franchisees and it's not just selling licenses. So I think one of the most important things that we do is help them find good real estate. And I remember Richard flew out to Houston one time. He was like, hey why do your clinics do so good? Let's go look at it. I said, well, they've got real estate. It's real simple.

So what we did in each region, we'd find a really good broker. We teamed up with CBRE in all four of our regions and had a different broker for each city. And they were good, they were hungry, had a lot of energy. Then I would call that broker and I'd say, okay, John Smith is buying River Oaks and Galleria and clinics, and we need to do a tour. So they'd take a couple of weeks. They would call all the landlords in that area and they'd find potential 1,000 to 2,000-foot spaces that they were going to show them that were currently available or the most important part of, I think, could be available.

So by having a good broker, having a proven franchise brand and early on, we weren't a proven franchise brand, but – these landlord would have a tenant that was slow paying on their rent. And they'd go oh, I'd surely like to get rid of them and you guys seem pretty good, and you guys have several open that are doing well and I like this and I like the others' background. So they would move that tenant along to greener pastures or they would choose not to renew a tenant who didn't have a renewal option. And failure to have a renewal option in their lease is a big mistake that most people don't even catch.

So all of a sudden, they've been there five years and the landlord says, sorry, I'm raising your rent $10 a foot and – because I want to put these other guys in. So that's how they could be available or became available, and we got a lot of spaces that way. So I'd call that broker and I would say, okay, Joe's buying these trade areas, et cetera. So they'd put together – they'd find out that real estate. They had put together – yes. All right, they would put together a tour book. This one is for actually one trade area but it's got tabs. And each tab – at the front, it would have a map of them all.

And then it would have pretty landlord brochures for each center. And we'd hop in a suburban, myself, the broker and me and the franchisee. And we would hop in a suburban and spend half a day to a full day, depending on how many licenses they bought, and we'd just drive around. And when they got in that car, a lot of them were like, well, I don't know about real estate. But by the end of the day, they had a pretty good working knowledge because we'd school them. So then they'd find us a lease, say work in NOI and get that going.

Now most of these people don't kind of have a real estate background or a legal background, so they'd get this big old thick lease and go, oh my gosh, what do all these words mean? I would say, well, you need to hire a real estate attorney or a lease reviewer, and there's people out there that are like real estate attorneys that are called lease reviewers, and I haven't really figured out the difference. But – so they review the document for them and help them negotiate it. And I was very involved in every lease, helping them strategize, and I'm like, no, it's probably not that important or you really need this or whatever.

So we spent a lot of time working with them on their lease negotiations. I did not review the lease for them because I wasn't an attorney. We then – once they got a space, we'd help them with their space plan, their layout, their design. This is good, that's bad, that's inefficient or you'll hate that, whatever, just so they'd have an efficient clinic. We'd refer some general contractors we need to them. They would hire the general contractor themselves to build it out, but we knew some – and typically, as regional developer, we preferred a general contractor who's built one of these before just to make our life a lot easier and so we didn't have to train somebody every time.

So we'd help them with their opening. They're getting ready to open. Well, how do you market? How do you advertise? This is the old days. This was before digital marketing was big. Anne and I were big into postcard mail-outs, and it's what we did in another brand. And we were big in mailing out 10,000 postcards a month, every other month, all around. And people got them, and most people just ditched them in the trashcan. But they saw them and that was an impression. And Jason, don't impressions count?

<<Jason Greenwood, Vice President, Marketing>>

Yes.

<<David Glover, Regional Developer>>

So then once they get opened, we helped them with their opening. And we'd usually have a tamp that said The Joint and they could put it at their opening with balloons on it and make a splash. And after they opened, we helped them with their future business planning and operations, disseminate information that comes on from corporate. And in order to maintain good brand continuity, we did a lot of periodic inspections. And we do – we'd inspect several times a year. We'd go out and look at their clinic. And occasionally, you'd find someone who decided, hey, I need a fish tank on my front counter. Well, that's not how we look. But – so you cancel that.

Okay. So back to when – we back up – we purchased 58 licenses, okay? Okay, I do need this. And now I've got 58 licenses to sell. So where are we going? What am I going to do? So this is Houston, for example. You see all these little squiggly weird shapes. They're not circles. They're – I don't know the name of them, but those were defined by streets, major roads, rivers, lakes, whatever. And those are trade areas. And so these were projected Houston trade areas. And there's a lot of them and they were pretty good sized.

Because when we first started doing this, people were like, well, I want protection around – I don't want anybody near me. And we subsequently learned, well, it's better off if you aren't close together – close with the other, but the typical franchisee's reaction is I don't want anyone near me stealing my customers. That's just basically franchising. So we built these maps. And then, we – I mean, I think I have a couple of them, I do. That's Dallas and there's Austin. Some of them are crossed out. I don't always get this updated as much as possible. And there's San Antonio. So I've got my maps. I know my inventory in these franchisees.

So my next job is to sell our licenses. Well, I said, okay, I've got 58 licenses to sell, that's a lot. But I like clustering. What's going to do it faster? Faster. Okay, word on the book. In Dallas and Houston, I required every franchisee to buy three contiguous trade areas. In Austin and San Antonio, two. So being the CPA I was, I've – well, that would be faster to sell 58 if I divide it by three. So that's what we did. We required them to buy three contiguous ones in Houston and Dallas and two in Austin-San Antonio. And that upped the ante. It meant we got, I think, an even higher caliber of people that had some money to play with and they were definitely more engaged.

Okay, so we sell these units. We signed a bunch of agreements, paperwork. Well, the name of this game is opening the units. And up until then, I don't think they're good till they're open. So we pushed to get them open quickly, and sometimes that takes a little longer than you want and landlords sometimes like to pull your hair out. Okay. So once they started getting open and we have four, five, six in a market, we would start to establish advertising co-ops. So everybody would come in and we'd say, okay, well, you guys are getting ready to do some big and powerful here in Houston or Dallas or wherever. And they were like, what? I don't know. So – and the co-op again can leverage the power of, say, 10 clinics to buy radio or Austin lights TV. And different markets are priced differently.

Austin is a cheaper TV market and so they do that there. But Houston and Dallas were expensive for TV so we went with radio. We used to do radio at that other brand I'd been involved in before, and it got the word out and made impressions. So we really got those going early on. Our Houston co-op, who actually won an award at the last conference, is I think they're the top of the food chain for co-ops. I mean we've got some really good real franchisees there, very powerful, strong motivated people. And just recently, see if my slides are in order, the Houston co-op became the official chiropractor for University of Houston Athletics for the entire school, every one of their sports. So you see that in the lower-left corner down there.

So we –- the co-op paid the University of Houston $150,000 to be their official chiropractor. And that is very different but it's going over well. So once this happens, who do we hear from next? Dallas Cowboys called us. And we've heard from, I think, SMU and we've heard from other team. They were like, oh, we want you to come be our official chiropractor. Obviously, they're seeing the money potential but it's still a great relationship. So anyway, our strategies appear to be working. So why is a regional developer so powerful? Because we're getting accelerate growth of the concept before copycats come in, and that's huge. We don't want to go up in 20 and then somebody else goes up in 20. I mean we want to have world domination.

I set the bar kind of high. Also, when you're in early, you control the best real estate. Four minutes? Okay so you control the best real estate. You get in early and you find the best real estate. And that's how you dominate. So where do we stand today? We have 109 licenses total that we've awarded and sold, 80 units opened in Houston, Dallas, Austin and San Antonio, Houston has 31, Dallas has 30, Austin, 14, and San Antonio, five, okay. We've got two more units under construction, we've got eight more leases that are already signed, and we have nine units that are in negotiations with landlords and 10 other licenses that are out looking for real estate.

So one of the things I was told by Peter last night. Franchising is such an unknown opportunity for people. There are so many people stuck in jobs that they hate. They have a lot of talent, and they don't know – no one knows about franchising. I barely knew about franchising, and we kind of stumbled across it. And what does it take to open a clinic? Well, our FDD, our Franchise Disclosure Document, says it's like $180,000 to $340,000. And let's just say for talking purposes, let's say that number is $250,000 because there's a minimum and a maximum, but let's just use $250,000 for talking. The SBA will loan somebody 80% of that.

When you come here with a proven concept and we have an SBA registry number, I mean, boy, they just love – those are just slam dunk borrowings. They look at the borrower. I mean, it can't just be somebody with zero – or they'd pretty close to zero where this concept is so good and strong. But they'd come in and borrow 80%. So a $250,000 franchise, they need 20% down equity. That's $50,000. Well, I think most people could go pull together $50,000 from family, friends, create a partnership, somehow syndicate it out and you can get a clinic.

So that's really a – one thing I want to say as I wrap up is I want to complement Peter Holt on an incredible job he's done turning this company around, building a culture here, a culture of trust, a culture of honesty and a team that's an incredible strong team that a 4,000-unit franchise would be proud to have this team that we have at corporate. So that's pretty incredible. Good job, Peter. So anyway, I want to say, thank you, and any questions? And all that. So Manjula, you would like give me time or we – was that my time to start questions or time to be done?

Q&A

<Q>: How do the economics compare between the prior brand to join the franchisees?

<A – David Glover>: That's a good question. The first franchise was pretty strong, and it flew off the launch pad. And I have a lot of friends that are still in it, and they are all kind of wanting to get out of it, and it's morphed and changed, and The Joint is – we have, okay, so we have five clinics. We had 180 employees. That's a lot of employees. It's 140 of them were massage therapists and 40 front desk. And that will wear you out. Our concept has a much lower headcount. I mean, you've got – when you open a clinic, you have one at the front desk and one chiropractor in the back.

Now obviously, they can't work all the hours of the week and all that, so you'll have multiple of those. And then as you get busier, I mean, I've got clinics in Houston that are running three chiropractors full time because they are that busy. So – but it's still much easier to manage. And so our multiple basis may charge good money with this. And I mean, we have one of our franchisees picked the conference here recently, and he is clearing $1 million a year with six or seven clinics. So it's – if someone wants to scale up, it works.