

ROYALTIES 101: WHO PAYS WHAT & WHY?

Franchise Times®

MAY 2016

The News and Info

www.franchisetimes.com

SWEET LORRAINE IN THE GRITTY CITY

Lorraine Platman is co-founder of Sweet Lorraine's Mac n' Brewz, a new franchise aiming to help Detroit's comeback bid.

HOW BOLD
OPERATORS
ARE REVVING
DETROIT

Sweet Lorraine's
CLOUDS
n'Cheez!

By Tom Kaiser

It was a gloomy day in Cadillac Square Park as I held a five-foot-tall camera flash to keep it from blowing over in the wind. From the west side of the park, I had the perfect vantage point for the good things happening in downtown Detroit—a city many Americans have left for dead.

Within my view were the stunning Book Tower, Cadillac Tower and David Stott Building, neo-classical, neo-gothic and art deco icons from the 1920s towering over an urban plaza. Between the classics were sleek offices for Ernst & Young, busy sidewalks and a brand new commercial tower rising in the heart of the city.

Our photo subject, Lorraine Platman of Sweet Lorraine's Fabulous Mac n' Cheez, just finished her hair and makeup when an affectionate homeless guy moved in trying to give her a hug. "Watch the hair!" she said with a smile.

Seeing the unfolding nonsense, I guided him out of the shot and urged our photographer to move quickly as a pair of security guards closed in to boot us from the park—no commercial photos allowed.

This new construction is a big deal in Detroit, with a downtown that saw its office vacancy rate exceed 25 percent during a recession that hit harder here than anyplace else. Things are different now.

Amazon, Quicken, Lear Corp. and the "big three" automakers are making huge investments, three new stadiums are under construction, a new train line nears completion, residential developers are running out of warehouses to convert, boutique fashion retailers are popping up and bullish entrepreneurs are hurriedly placing their bets.

Detroit is coming back fast.



A cheesy D-town empire

While everybody knows about the fall of Detroit, husband-and-wife Gary Sussman and Lorraine Platman—owners of the newly franchised Sweet Lorraine's chain—explain the city's comeback is an "overnight sensation 20 years in the making." They would know, having opened their first Sweet Lorraine's (a full-service deli and cafe) back in 1982, one of a dozen restaurants they have built and operated over the last 34 years.

Back in the car after the shoot, they gush listing all the restaurants, museums, theaters and architecture I need to check out while in town—they love this city where Gary grew up and where they've built their multi-unit restaurant empire in a time and place that hasn't been easy.

Jazz poured out as the red spectacled Lorraine welcomed me into her brand new macaroni-and-cheese-themed restaurant and bar, Sweet Lorraine's Mac n' Brewz.

The interior is in stark contrast to the Midtown street—warm, repurposed wood from torn-down homes across the city, glass and stainless steel, bright retro-colored couches and wild, modern lighting hanging from the rafters. A beverage bar serves alcoholic infusions like applewood-smoked bacon whiskey, while the main line is populated by young employees preparing salad bowls, wraps, "twisted grilled cheese" sandwiches filled with cheesy pasta and 14 kinds of loaded macaroni and cheese.

It's an 88-seat restaurant in the formerly abandoned Marwil Bookstore, but it's also the new energy of a downtrodden block, and a metaphor for the wave of progress in America's 14th largest metropolitan area.

As I scout a comfy place for an interview, she makes fun of her husband's serious-looking gray suit that gives him the appearance of a Secret Service agent, a contrast to her black chef's coat.

"Sometimes I see him and say, 'Gary, you really can't be looking through the doorway, because you look really mean, like corporate's come down,'" she said. "That's not the way we try to be, you know."

Gary laughs, pretends to speak into a lapel pin that says "Mac n' Cheez!" and sits down to talk about franchising a beloved local chain now spreading beyond Michigan.

As the pair explained it they've run many full-service restaurants in and around the city over the years, with two still in operation, before designing their fast-casual macaroni and cheese concept of which there are now seven locations and two franchises.

Savvy at garnering media coverage and with a loyal fan base, Gary and Lorraine have been approached by venture capital companies, potential franchisees and enthusiastic, out-of-town diners urging them to expand. Believing in the universal appeal of macaroni and cheese, as well as their own business acumen, they are now pulling the trigger.

"We're trying to create our own category," Gary said, adding this is the first mac-and-cheese-themed fast-casual franchise. He sees Sweet Lorraine's as a counterpunch to the unending succession of Mexican, burger, pizza and sandwich concepts—what he calls "the big four."

As the CEO, Gary talks business, while Lorraine focuses on back-of-the-house training, food and beverage creation and serving as the energetic, funny and environmentally minded figurehead of the growing chain. Easy conversationalists, they would much rather talk about the design of the restaurant, relationships with local urban farms, the resurgence of their home city and the potential of a concept that seems to hit millennials right in their artisan cheese-craving guts.

With a strong focus on local sourcing and environmentally sensitive ingredients and practices, Lorraine has found her unexpected life as a restaurateur gives her space to make the positive impact she craved as an environmental studies student years ago.

"I got bummed out over the years that I didn't pursue that, but it turns out I've got more of an audience being a restaurateur," she said, noting they also prioritize the societal benefits of urban environments.

It's not just talk: they paid out more than \$90,000 in rent over 18 months to lock down their current location, which was delayed due to construction and municipal difficulties. They wanted to be the first good thing on a block primed to bounce back.

"Our stress levels come from the fact that we want to be the first on the block," she said. "We know that the competition's going to be right behind our heels once they see what can be done here."

Chicago style in D-town

Everybody has a few images of abandoned factories, empty neighborhoods and crumbling high-rises to bolster the memory of Detroit's history. All of this is still happening, as any five-minute cab from downstairs illustrates.

What was once America's fifth-largest city, peaking at 1.8 million people in 1950, saw its population fall to 700,000, leaving behind countless abandoned schools, churches and movie theaters. Impossibly large, once world-beating factories were left to the scrappers and squatters, entire neighborhoods were depopulated and approximately \$20 billion in debt and unfunded liabilities led to the largest municipal bankruptcy in U.S. history, in 2013.

Detroit's many scars will endure, but public and private investment is giving this city more reasons for optimism than any time in recent memory. Ambitious farmers are turning housing tracts into productive urban fields. In franchising, Sweet Lorraine's isn't the only one trying to be the first to stake a claim in Detroit's resurgence.

After defaulting on some loans and filing for protection in bankruptcy court in 2011,



Chicago-based Giordano's has been on a tear—new restaurants in new cities, beefed-up infrastructure, better marketing and, with its latest push into Detroit, planting an early flag in a neighboring city the company feels is on the way up. In the days following our interview, Reuters reported that Giordano's owner Victory Park Capital Advisors hired Piper Jaffray Cos. to explore selling the company.

Michael Delrahim is the managing partner at Chicago's Brown, Udell, Pomerantz & Delrahim law firm, as well as one of the newest Giordano's franchisees. He recently secured a site for a Giordano's in the Greektown neighborhood on the east side of downtown.

Before committing to the investment, Delrahim went through a litany of studies and sources to put together a thorough economic examination of the city. What he found surprised him, and shows a city whose recovery is far rosier than mainstream perceptions of Detroit as the city of "ruin porn" and disheveled factories.

"We didn't just want to understand a six-block radius around the restaurant, but who was coming into downtown Detroit, where are they coming from, why are they coming and how long are they staying," he said over drinks at the Greektown Buffalo Wild Wings. "What we found is that there's a real pulse in Detroit, which was more so than I ever expected."

Delrahim's upcoming restaurant is the first phase in Giordano's greater plans to open a total of three locations in the metro area, and additional units outside of the city in Lower Michigan.

His research included the rooftops and demographics, but also a look at attendance for nearby stadiums and theaters, retail sales per square foot, upcoming corporate developments, hotel occupancy and the number of new retail and restaurant establishments opened in recent years.

Objectively, the numbers are stunning, and more than enough to convince Delrahim that Detroit has a much brighter future than headlines and political one-liners would suggest. He rattled off a long list of statistics.

"There are over 13.7 million people that visit greater downtown Detroit each year, filling 126,058 stadium seats for the Lions, Red Wings and Tigers, 12,550 theater seats, 4,498 hotel rooms, and each year over 4 million people attend sporting events, which consist of 44 percent of the people who come into downtown Detroit," he said. "The nightlife in downtown Detroit resulted in over 77 new restaurant openings since 2013."

In addition, he cited a recent Wall Street Journal story suggesting Southfield, Michigan-based Lear Corp. is interested in bringing a 1,000-job innovation center to Greektown.

"It's all happening in Detroit," he said. "For those who do not understand what's happening in Detroit, I would strongly encourage them to take a deep dive into what's happening here, because they're overlooking something great that's happening in the Midwest."

As the check arrived, he added the Westin he was staying at was fully booked, which he said was remarkable given that it was a gloomy late-March Wednesday with no major events in town.

"That's a couple blocks away from where we're sitting now," he added with a smile.

Dunkin' into Detroit

With dozens of units already in the city, Canton, Massachusetts-based Dunkin' Donuts is looking to expand its footprint in Detroit with new deals through seven different franchise groups, the first slated to open in 2017.

Patrick Cunningham, senior director of franchising at Dunkin', said the company has "best-in-class" market planning, which determined that even with 47 existing units, this city and its surroundings can support many more in the coming years.

"We're not immune to the economic issues that Detroit has faced with the auto industry, but we've absolutely seen a growth in our development along with the resurgence of Detroit," Cunningham said. "We're seeing real estate opportunities, but it's tough because there are many other concepts seeing Detroit as an opportunity."

Beyond adding new units, Dunkin' has also remodeled existing restaurants, which includes adding drive-thrus to some locations here in one of the most car-dependent cities in the country.

Asked about risks unique to the Motor City, Cunningham said Dunkin' hasn't faced

anything out of the ordinary in planning for its expansion, aside from the typical challenges of securing real estate.

Convenience store operator and Dunkin' franchisee Amit Patel, who is adding Detroit locations with his brother, Kalpesh, believes the metro area is only a few years away from a significant boom in traffic and sales.

"We think in all the surrounding suburbs, including Detroit, there is an incredible growth opportunity there," he said. "When I look at other areas we're in, we think there's still a good growth spurt because we're seeing an influx of population, there are more houses being built and we're seeing increased sales year over year."

Sweetening Lorraine

Back in Midtown, beneath a dark wall with bright orange letters spelling "Fabulous" above our heads, I asked Gary what makes Lorraine so sweet.

"I've known Lorraine for 40 years," he said, before being interrupted by his wife who corrected him that it's been 41. "I'm partial, but she's intelligent, intuitive, hard-working, creative and a lot of fun."

For a couple that's admittedly spreading themselves thin and working harder than ever before, Lorraine jokes that the secret is "a lot of Valium—whatever people want to give me." As their newest location gets off the ground, as well as their first out-of-state franchise location in Vernon Hills, Illinois, they are now focusing more on training others and building infrastructure, rather than actual building and training themselves in the ways of franchising.

A pack of five students waited outside of the front door ahead of the 11 o'clock opening. "Are we ready?" Lorraine asked the staff, before Gary unlocked the front door of a store that's exceeded initial sales projections by 30 percent in its first month.

"We may not be in every town in the world, but nowadays the millennial generation wants quality, they want to know where their food is from and people want to know that you're using quality ingredients and not junk," he added. "That's where most millennials are spending their food dollars, in fast casual places like this, so we have to make sure our locations are near millennials—it's going to be the biggest generation of all time."

Local-and-sustainable costs more than easier options. Even so, the mini Cubano Mac (ham, pulled pork, toasted bread crumbs, Swiss pickles, Italian peppers) I'm handed costs \$5.99. The Twisted Grilled Cheese with crusty brioche bread and internal macaroni covered in "ooey-gooney

cheese sauce" goes for \$6.99—not bad and more than this traveler could pack in.

"One advantage we have over a lot of concepts, noodles are the centers of our mac and cheese and are relatively inexpensive," he said. "Like pizza concepts, mac and cheese is a lower cost item by nature, and we use very flavorful cheeses so we don't have to use as much cheese—there are a lot of tricks to the trade."



Growing to a certain size

After the couple opened their first fast-casual mac and cheese store in 2010, the decision to franchise came partially as a realization of their own, basic limitations.

"Most of our energies were spent managing those full-service restaurants—we thought smaller stores would take less management," Gary said. "They do, but they still take management and you can only manage so many if you're going to grow to a certain size."

Having now signed a couple and turned down a few potential franchisees, they have implemented a "no jerks" rule as they seek out like-minded owner-operators willing to get their hands dirty.

With a few kiosk and food court locations now open, they expect a third of their future stores to be in similar "nontraditional" locations, including office buildings (like GM's Renaissance Center location in downtown, which opened in 2014), airports and student unions. Some will be simply Sweet Lorraine's Fabulous Mac n' Cheez, while those with liquor licenses will get the Mac n' Brewz title.

This Mac n' Brewz across from Wayne State University is the flagship of what's possible in a larger, standalone format—equal parts coffee shop, funky bar and restaurant. Adding large windows overlooking the street (and stately old Detroit Central High building) was one of the biggest expenses, while creating a very open feel to a business designed to be a visible part of the local ecosystem.

Beyond Chicagoland, where they hope to open units in addition to the first in Vernon Hills, Sweet Lorraine said they are

particularly interested in Madison, Wisconsin; Ann Arbor, Michigan; Toledo, Ohio; and Minneapolis—all home to large universities.

Three hours in, I was starting to feel the magic. Catering to young people, respecting the environment, supporting sustainable suppliers and being part of the cadre of business people investing to improve this city sounds like their life's work. I'd believe it, if the food and ambiance weren't so unique and pleasing.

"We've always tried to attract a lot of different people, and my husband says we have Jaguars to junkies in our parking lot," Lorraine said. "We look out and go, Wow, this seems like a real city—we have teachers, locals, students and suburbanites coming down and going to Midtown—how cool is this?"

In a city that nearly sold off its incredible art collection to stay afloat, private enterprise stepping up fits the bone-crushing work immortalized by the glorious Diego Rivera frescoes at the Detroit Institute of Arts.

However bad it's gotten, the common refrain is Detroit will rise again—fueled in part by some delicious mac and cheese.

