



## CONCEPT EVOLUTION: IS YOUR EQUITY MELTING AWAY?

It's no secret that International Dairy Queen has been implementing changes to our business model that may affect the existence of thousands of independent franchisees. It's not the first time and it won't be the last, as our parent company seeks new avenues for growth and profit.

As the only organization dedicated to protecting your rights and preserving your heritage, the DQOA is all in favor of changes that enable you to increase your profits and improve your operations. That is why we are so committed to helping you understand the issues surrounding concept evolution: the promises, the pitfalls and the opportunities that lie ahead.

We've all heard the glowing reports of Dairy Queen's new Grill & Chill food stores, an upgrade from Braziers that is designed to help you compete with fast-casual food chains by providing fancier décor, expanded menus and larger kitchens. IDQ reports publicly that Grill & Chills have generated a phenomenal response in test markets throughout the country, and declared them a huge and resounding success.

This sounds like exciting news, and we've all been anxious to see the numbers. Unfortunately, no complete P&L's have been distributed. In presentations to operators, IDQ staff has shared only limited results. We have yet to see a full report by an independent auditor, not to mention the criteria by which this concept was judged and deemed fit for our Queen!

Without a full disclosure of information, we have no option but to view information from headquarters as propaganda, rather than fact. It is in our best interest to question whether or not this particular restructuring is as financially sound as we've been led to believe.

Here's what we do know:

The cost of re-imagining a Brazier to a Grill & Chill is upwards of \$400,000, and that number can easily double, depending upon the extent of modifications. For that, it has been promised (not proven) that returns will range from 12-15%.

A Brazier refresh, on the other hand, costs only \$150,000 and we have historic proof that the returns are just as great. Is system-wide conversion to Grill & Chill really a smart business decision? Should this concept replace *all* of our existing stores, or simply be another choice that makes Dairy Queen so unique?

IDQ is currently entering a similar test phase for the new Treatworks store. The cost of conversion, while not yet determined, is estimated to be in the neighborhood of half a million dollars. It is in our best interests to see that the same mistakes are not made, as we look to improve the market position of Dairy Queen. Let's make sure we define the criteria for success upfront, so that we're not accused of being troublemakers simply by asking for information, which is ours by right.

Perhaps you've read or been told "not to worry"; conversion isn't a foregone conclusion after all. Much of the information we've been given implies that concept evolution is simply a path with plenty of options that will make it a smart business move for every DQ franchisee. If that is the case, why do so many of these options have caveats that make the options impossible to achieve?

Consider, for example, the option of refreshing your current location with original materials vs. converting it to a Grill & Chill soon. It's interesting to note that while IDQ provides the materials for conversion (at a profit of up to 18%), it has abandoned provisions for other well-loved designs. When it comes to obtaining the "original" materials required by IDQ -- a color of paint, a type of linoleum or a vinyl finish that has not been on the open market for years -- franchisees are on their own.

While IDQ *says* that not every franchisee has to convert, IDQ has already made changes to our *legal documents* that preclude any other outcome. In several of our previous articles, you've been alerted to changes in language and requirements affecting the sale and transfer of your stores. From more stringent financial requirements to outrageous debt guarantees, your sweat equity is being threatened at every turn.

While IDQ cannot unilaterally change franchise agreements, they can certainly impede your ability to sell or transfer unencumbered; not to mention using your limited "site-location only" rights to encroach upon your territory and drive you out of business.

We're not saying that concept evolution can't be profitable or is never worth the investment. And we're certainly not implying that IDQ is trying to put its franchisees, and thereby itself, out of business. We are simply concerned about the thousands of franchisees who have invested their lives into making Dairy Queen an American tradition.

We're concerned that in places like Indiana, Kentucky and Tennessee, franchisees have already been put out of business by an evolution that's supposed to have the opposite effect. We're concerned about lifelong owners whose future is at risk.

That's why we ask that you read your IDQ Bulletins very carefully. Review these materials with a competent attorney. Don't be afraid to ask as many questions as are necessary to address your concerns.

Here at DQOA, we have engaged in both corporate and legal challenges in an attempt to protect your interests and preserve your future. We've proven time and again that Dairy Queen operators do not have to risk their heritage to keep up with the times. By protecting your competitive choices and independent rights, we can assure that change leads to greater profitability for us all. To learn more about this and other critical issues facing Dairy Queen Owners and Operators, visit [www.dqoa-dqoc.com](http://www.dqoa-dqoc.com). Continue to support your association by purchasing Crown Select products from your DQOC distributor. This keeps your prices competitive and ensures the viability of the DQOA to continue the monitoring of your rights.