

Freshway owner surmounts challenges of becoming franchisor



Yvonne D. Hawkins | For the Sioux Falls Business Journal Joan Goddard (left) learned about franchising the hard way as president of Freshway Food Systems, but she says it has increased her company's value. Michelle Warne is director of marketing.

By Yvonne D. Hawkins
Sioux Falls Business Journal

Had Joan Goddard known that she eventually would become a franchisor, the Sioux Falls woman says she would've learned more about the business structure ahead of time.

RETAIL Goddard, president of Freshway Food Systems, had owned the company 15 days when she received a letter from state officials in Pierre saying that her business needed a South Dakota franchise license.

Freshway, originally based in Iowa, offers branded food-service products to other businesses. The company now is one of a handful of Sioux Falls-based franchisors.

Under Iowa law, the company didn't need a franchise agreement. But when Goddard bought the company, she moved Freshway's incorporation to South Dakota. And the state's securities division, which regulates franchises, said Freshway met South Dakota's definition of a franchisor.

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THE RIGHT LOOK

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BUZZ: Dealership thrifty with used oil

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Sioux Falls clothing designer Hugo Sarmiento hopes to see celebrities wearing two of his creations when the Golden Globe Awards are telecast Jan. 15 on NBC.

Two prospects have shown interest: an actress up for a top award and a presenter. The glitzy event is sponsored by the Hollywood Foreign Press Association.

Etiquette prevents Sarmiento from identifying the women. The veteran designer, who plans to open a store in Sioux Falls by Feb. 1, won't know until showtime whether his clothing will be on display because celebrities reserve the right to change their minds.

"Every single designer in the world sends them dresses," says Sarmiento, 41, a native of Mexico and U.S. citizen.

Although he is accustomed to working with celebrities, he personally shies away from cameras.

"He's a very humble person, which I find surprising for that line of busi-



ness," says his publicist, Sonia Line of Sioux Falls. Before being lured to Sioux Falls two years ago by family and friends, Sarmiento spent more than 20 years in the design business in New York, where he also has a shop.

Shane Lien, service manager at Billion Automotive's Buick/GMC dealership, says the oil-fueled heating system at the store works well. Used oil from cars is stored in tanks in the lower level of the building.

Rob Swenson
Sioux Falls
Business Journal

ness," says his publicist, Sonia Line of Sioux Falls.

Sioux Falls is a good place to live, he says, and it's halfway between New York and Los Angeles, where he does a

lot of work.

A leased site at 333 S. Phillips Ave. is being prepared for Sarmiento. It will serve as a retail outlet and design studio. The store, to be called Hugo Sarmiento, will sell brand-name clothing at various price points as well as Sarmiento's own, upscale designs.

Sarmiento plans to start with

women's clothing and accessories, and branch later into men's clothing.

"I want to make it look very New York," he says.

Frenzy fades

After months of local hype, nearly 100 people lined up in front of Krispy Kreme on the doughnut shop's first day of business in Sioux Falls on May 20, 2003.

The store on West 41st Street closed in much quieter fashion on Sunday afternoon, which was New Year's Eve.

Rion LLC, an Arizona-based company that holds regional franchise rights for the famous doughnut chain, closed two of its seven outlets in the Upper Midwest. A Cedar Rapids, Iowa, store also shut down.

"We're going through some restructuring right now," says Jim Hoskinson, operations manager for Rion.

The Sioux Falls store had 38 full- and part-time employees.

Krispy Kreme might reopen in

FRESHWAY: 81 locations

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With five months to meet state requirements, Goddard learned about being a franchisor from the ground up, she says. That included finding a licensed franchise attorney and learning about what the franchise industry calls UFOCs.

"I didn't even know what that was," she says of a uniformed franchise offering circular, which is the basic document that governs franchise agreements.

Goddard eventually connected with Bill Bowen, an Aberdeen lawyer who had worked with the Super 8 Motel chain, the national business that originated in Aberdeen.

In addition to filing a UFOC with the state, franchisors also must have their financials audited annually.

"Audited financials are extremely expensive," Goddard says.

Then, in the aftermath of high-profile accounting scandals at companies such as Enron, the federal government added more requirements to the audits.

"I'm this little, tiny company, and I have to have as much done as GM," Goddard says.

Freshway also is required to obtain licenses in each state where it does business. However, its South Dakota license allows the company to operate in 36 states without submitting separate applications.

Still, the company must keep individual licenses on file in seven other states where it also does business. And different states require different addenda to the company's annual audits.

Despite the intense administration involved, making a company a franchisor gives it more value, Goddard says.

"It just takes a lot more effort," she says.

Freshway has 18 registered trademarks and 81 franchised locations, mostly in small towns throughout the Midwest. Typically, franchisees are grocers and convenience stores.

The company, which employs four full-time work-

ers at its headquarters on North Cliff Avenue, contracts with Sysco, a national food-service distributor.

Cenex Ampride in Salem has offered Freshway's pizza, subs and chicken products since the convenience store opened in February 2000.

Freshway helped the store set up its pricing structure and train workers, store manager Kathi McIntyre said.

Recently, the store increased its promotion of Freshway's sub and pizza punch cards, which entitle customers to a free food item after buying seven.

"It has really increased sales, definitely," McIntyre says.

That type of help with pricing and promotion is what Goddard says sets Freshway apart from competitors such as Subway and Sioux Falls-based Hot Stuff Foods.

Freshway's food-service concepts are like a business with larger businesses, Goddard says.

"It's one piece of the pie," she says. "We help manage that piece for them."

Scott Ehresmann, owner of Valley Lanes and Rec in Brandon, says the support system works well for his business.

"I can work off that (margin sheet) and set my price appropriately," he says.

Ehresmann says his Freshway franchise also helps the bowling center, which offers Freshway's branded Gladiator Pizza, compete with other businesses.

"It's a very good product. I get compliments all the time from people in Brandon about how good it is. And I'm always competing with Pizza Ranch," Ehresmann said.

Goddard says she would advise businesses that want to franchise their operations to study about the structure as much as possible.

Transforming into a franchisor requires a financial investment, she says. Freshway spent about \$100,000, an unanticipated cost that Goddard decided not to pass on to her customers.

"But it's been fun, too," she says.

GRANTS:

'Prime the pump'

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By Randy Hascall
Sioux Falls Business Journal

Eleven applicants believe their plans to raise or process fruits, vegetables, nuts or nursery crops deserve a share of a \$100,000 pot offered by the federal government.

The U.S. Department of Agriculture launched a specialty-crop grant program in November to promote innovative projects that might help diversify South Dakota's agricultural industry and boost production. Congress set aside money for each state.

By the Dec. 15 deadline, South Dakota had received proposals from 11 people or groups interested in the grants. Their names haven't been released.

"A lot of the applications are for grape growing or grape production," said Alison Kiesz, grants coordinator for the South Dakota Department of Agriculture.

The grants can be used for a variety of crops, including flowers, shrubs, tomatoes, raspberries and pinto beans.

There's not enough money to meet the needs of all 11 applicants, so the state ag department staff will review the applications and decide which ones should get grants. The state will submit its recommendations to the USDA within a month or two, Kiesz said.

Ideally, that money will be awarded in spring so recipients can use it during the growing season.

The grants could go to producers, small businesses, organizations - anyone with projects relating to specialty crops. It's likely a grape producer or winery will be one of the recipients. Kiesz said