

BY DEBBIE SELINSKY

The Sky's the Limit

Wendy's operator dominates with 177 stores



Robert Schermer, Jr., CEO of Meritage Hospitality Group in Grand Rapids, Mich., hails from the school of life that says, “Go big or go home.”

Eighteen years ago, when he left his career in corporate finance to join Meritage, company sales were \$27 million; in 2015, sales were \$228 million. In 1998, the company operated 22 Wendy’s restaurants in Michigan; today it operates 177 in 8 states and the company is now publicly traded—and looking to hit 300 by 2021. Meritage also has four original casual dining concepts, all in Michigan (6 units total), and employs 6,200.

“We always intended to grow the company to the size it is today. Where the stores come from and how they arrive, we have no clue, but we’re always out there working relationships and markets in different areas,” says Schermer. “Our job has always been site identification, building the stores, and operating the restaurants. That’s what franchisees should do, and that’s our philosophy.” Schermer describes the relationship between Meritage and Wendy’s as “basically symbiotic,” and says he relies on the franchisor for unique products and innovative marketing.

“Wendy’s has never been more exciting than it is today—the products are back on. When Dave Thomas died in

NAME: Robert Schermer, Jr.

TITLE: CEO

COMPANY: Meritage Hospitality Group

NO. OF UNITS: 177 Wendy’s, and 4 independent casual dining concepts (Twisted Rooster, Crooked Goose, Freighters Eatery & Taproom, Wheelhouse)

AGE: 57

FAMILY: Wife Kim and two boys

YEARS IN FRANCHISING: 18

YEARS IN CURRENT POSITION: 18

2002, Wendy's went through a 10-year quiet period as a brand, a period of soul-searching. Then Emil Brolík came along [as CEO] and gave it a shot in the arm with facilities, marketing, and product upgrades. He handed it off to Todd Penegor, whose father is a Wendy's franchisee in the Upper Peninsula of western Michigan, so he's been around the brand his whole life."

What's happening in 2016 with Wendy's "speaks more to where the brand has always strived to position itself—highest quality in QSR, particularly the hamburger," says Schermer. "Now, we're into chicken products and the salad line, all healthy, high quality, fresh." And, as a fitness buff, he regularly enjoys the salad offerings.

When Schermer began by acquiring 22 Wendy's restaurants in western Michigan, it made sense. There were about 79 McDonald's in the same market, and he saw the growth opportunity. First, he renovated the 22 restaurants and then started building new ones. For five years Meritage built a new Wendy's every eight weeks in western Michigan. The company now operates Wendy's in Michigan, North and South Carolina, Ohio, Oklahoma, Georgia, Florida, and Virginia.

To those who caution against growing too rapidly, Schermer points to what he's seeing today. "Going back 18 years, it took 12 months between identifying the site,

dealing with entitlements, building the restaurant, and serving the first burger. Today, because of regulatory creep, that can take 24 to 36 months. Our market had development opportunities, so we got into the flow of opening new restaurants. We built a deep pipeline of real estate because of the time required today compared to 18 years ago."

Schermer says it's an interesting period for franchising. "A lot of franchisors are pursuing asset-light models. They want high-margin cash flow, royalty and rental income—and from their perspective, it makes sense," he says. "On the flip side, guys like us, multi-unit franchisees, are building a base for more sophisticated operations, and we're investing in our operations while they do products and marketing."

The ongoing shift to larger, more sophisticated multi-unit operators, he says, makes it more important than ever for franchisees to hold up their end of the franchise model. "This means having an HR department (at Meritage, we have an organizational development department, which encompasses more than HR), a real estate department, in-house legal for real estate, an IT department offering 24/7 services, POS in all restaurants, as well as operating and accounting platforms. These are things that smaller franchisees

may not have or be able to afford."

Schermer says he's also seeing more people coming out of major brands such as Wendy's, McDonald's, and Burger King and getting into the franchisee side. "They've seen things at a higher level with more sophistication and they understand the moving parts involved." Also, he says, the first generation of Wendy's franchisees is approaching retirement age. "They're either keeping their restaurants in the family, giving them to the next generation, or selling them and making sure their people are taken care of."

Business and regulatory trends aside, it all comes down to retaining what he calls "Dave Thomas values," says Schermer. "I remember meeting him years ago and he wore his heart on his sleeve. There was nothing fake about him. We are in the people business and put a lot of resources into and emphasis on people. We say we have two types of people: those who serve guests and those who serve those who serve guests. We live by those values." It's no accident that Meritage's corporate office is called the Restaurant Service Center.

Though he'll be focused on growing Wendy's through 2021, Schermer enjoys the best of both worlds with what he calls his "recreational sidebar": the four original casual dining brands he keeps close to home in Michigan. **MUF**

PERSONAL

First job: Corporate finance in the securities industry.

Formative influences/events: A true turning point in my career was when I joined the company nearly 20 years ago. The transition from corporate finance to full-time franchisee was a challenge. However, my previous work experience gave me the competitive edge to succeed in this environment.

Key accomplishments: I see our continued growth as a key accomplishment. When I joined the company in 1998, our sales were \$27 million and last year they reached \$228 million. That is a 744 percent growth rate.

Next big goal: 300 restaurants by 2021.

Best business decision: Always hire people smarter than myself.

Hardest lesson learned: Staying focused on long-term goals and not deviating from the set plan.

Work week: Whatever's required! The restaurant industry never shuts down.

Exercise/workout: Health and fitness are very important to me. I work out each morning at 4:30 a.m.

Best advice you ever got: To have a successful company, you must drive value for all stakeholders involved. I try to make every decision with that in mind.

What's your passion in business? Creating opportunities for people. I've always said the sky is the limit.

How do you balance life and work? When you love what you do it's rarely considered work.

Guilty pleasure: Who can resist a Dave's Single with a large fry and a Frosty?

Favorite book: *Scaling Up* by Verne Harnish. The perspectives and resources shared in the book have helped Meritage drive and manage our exponential growth.

Favorite movie: Honestly, I am a very active person and can rarely sit through an entire movie.

What do most people not know about you? I love sailing and spending time on the water.

Pet peeve: Governmental regulations and red tape.

What did you want to be when you grew up? An investment banker.

Last vacation: Earlier this year, I spent a relaxing week with friends and family in Florida.

Person I'd most like to have lunch with: Dave Thomas, founder of Wendy's. I met him years ago when I just started in the franchise business, and his passion for this company was extraordinary. Although the Wendy's brand continues to grow and develop, Dave's values are still at the heart of all we do.

DOMINATORS

“We are experiencing immense same store sales growth and are thrilled to be a part of the Wendy’s brand reinvention.”

MANAGEMENT

Business philosophy: We are in a service-based industry and that should be paramount. At Meritage, you either serve our guests or serve those who serve our guests.

Management method or style: I empower my people to drive business decisions through a blend of leadership and management.

Greatest challenge: With all the moving pieces in a growing company, it can be challenging to keep yourself and your team focused on the big picture without getting bogged down with day-to-day issues and operations. It’s not just about what we do, it’s about why we do it.

How do others describe you? “Go big or go home” applies to all aspects of my life. I set the company bar very high.

One thing I’m looking to do better: I’m very driven, so I could work on patience and listening.

How do you give your team room to innovate and experiment? One of the greatest values we have at Meritage is to “Run It Like You Own It.” I empower my people to improve our business through strategic decisions.

How close are you to operations? About 20 feet—our COO is in the next office! In all seriousness, we call our corporate office the Restaurant Service Center, and we pride ourselves on what we call “collective genius.”

What are the two most important things you rely on from your franchisor? The Wendy’s Company provides us with several invaluable resources. The biggest two that transform our business would be the uniqueness of our products and innovative marketing.

What I need from vendors: Consistency and delivery.

Have you changed your marketing strategy in response to the economy? How? Wendy’s has taken a new look at the value consumer through the use of their “high-low” advertising strategy: pairing Premium Combos with the ever-successful 4 for \$4 Meal. Guests have really responded, and we have seen a significant growth across the country in sales and transactions.

How is social media affecting your business? Social media is constantly at your fingertips and is at the heart of Wendy’s marketing strategy. Brandon Rhoten [VP, head of advertising, media, and digital] and the digital team at Wendy’s have drastically increased Wendy’s digital and social footprint, reaching the Millennial consumer right where they are—chatting with friends on their mobile devices.

How do you hire and fire? We use our company’s core values to drive decision-making around recruiting talent, developing talent, and managing performance, even when it includes separation.

How do you train and retain? We outline clear goals and expectations for our teammates that we hold them accountable to. Our continued growth offers opportunities for successful teammates to continue to grow their careers with us.

How do you deal with problem employees? We never take problems at face value; we get to the root cause. We partner with managers to develop leadership capabilities so they are better equipped to successfully coach their teammates to overcome issues.

Fastest way into my doghouse: Over-promising and under-delivering.

BOTTOM LINE

Annual revenue: \$228.1 million.

2016 goals: \$241 million.

How do you forecast for your business? Our COO and I have extensive finance and accounting backgrounds, so we are diligent about our growth measurements and projections. Our team of financial analysts uses restaurant data pulled from our back-office software and combine that with estimated external market factors to develop our projections. We use these on a daily basis when making strategic business decisions.

Vision meter: Where do you want to be in 5 years? 10 years? Our current plan is to reach 300 restaurants by 2021. With that, we hope to make a lot of advances on the people side of our business as well.

How is the economy in your regions affecting you, your employees, your customers, and the way you do business? Each region’s economy is unique to that area, so each market we operate in is different. That said, we do our best to tackle whatever challenge is thrown our way.

Are you experiencing economic growth in your market? We are experiencing immense same store sales growth nationwide and are thrilled to be a part of the Wendy’s brand reinvention. Our guests are loving that we are “Deliciously Different.”

What are the best sources for capital expansion? Wendy’s has

a national franchise lender program, which provides us with a great list of private investors.

Experience with private equity, local banks, national banks, other institutions? Why/why not? As a growing, publicly traded company, we work frequently with national banks and institutions. However, in a sense, each restaurant operates as its own business, where deposits and transactions must be made at the local level. It ends up being a balance for us.

What are you doing to take care of your employees? About a year ago, we instituted a new organizational development team at our Restaurant Service Center. This team helps us drive strategic business decisions with a “people first” approach. They focus on recruitment, retention, employee relations, benefits, compensation, training, and development.

How are you handling rising employee costs (payroll, minimum wage, healthcare, etc.)? We work as a team to arrive at decisions that are both strategic and cost-effective.

How do you reward/recognize top-performing employees? We offer a competitive base pay and benefits package and a performance-based bonus structure.

What kind of exit strategy do you have in place? Meritage is unique in that it is a publicly traded company and therefore, we plan for perpetuity.