Understanding Franchising

Unified Thinking

To be the organization it hopes, the Franchisor works hard to select people who share its philosophy about being in business and being successful in business. When everyone up and down the organization is thinking, speaking and acting with one voice, that's called unified thinking. With unified thinking, everyone is working for the same objective, rather than working at cross purposes with the organization or each other.

What is Franchising?

Franchising is a business strategy that has two components, one operational and one strategic, both designed to establish a barrier against competitors and an advantage with consumers. The operational component is focused on marketing, operating and support systems that create and keep customers. The strategic component deals with making decisions that ensure the viability of the business "long term." These decisions deal with positioning the business, choosing the right strategic-partners, product mix, design, markets and enhancing customers' perceived value—all with the objective of establishing a competitive barrier against competitors and an advantage with consumers.

The power of franchising is achieved when the Franchisor, strategic-partners, vendors and all employees in the system share a mutual commitment to the Franchisor's mission statement, core values, business positioning, vision and goals. This mutual commitment will create unified thinking, a sense of teamwork and an environment to grow the business. This environment should enable the Franchisor and each person to satisfy personal motivations and achieve individual goals, dreams and objectives.

Why Are You In Business?

Why are we in business? The traditional answer is *"To make money, to make a profit."* But these are a result of customers. And lots of them. So the accurate focus as to why any of us are in business is:

> *To get and keep more and more customers who consume more and more of our products and services more and more often, relative to the absolute growth of the market and the absolute growth of the competition and to do it with higher margins*.

Before becoming a strategic-partner, you probably considered or tried a number of options in the course of your career. Maybe you've worked for someone else. It is no guarantee of security, but you are free of generating customers, meeting payroll, covering inventory and wondering if you will receive a paycheck.

You could own your own independent business. That, too, is no guarantee of security, but at least, you're in control and answerable just to yourself. But this comes at a price. The headaches of self-employment include building your own brand name, developing and testing an operating system, finding what will attract customers and finding what will get customers to return. And on top of that, you have to provide all the support services yourself that are needed to keep your business going.

An alternative to being self-employed or to being an independent business owner is franchising—where you are now. For franchising to really work for the whole organization, everyone must have unified thinking about what our objectives are and how we will accomplish the objectives we've set for ourselves, implementing our missions, values, vision, strategies and systems. For the Franchisor, the objective is dominating markets through customer service, and the strategy for doing that is through franchising.

Objectives of Franchising

The Franchisor understands the dynamics of franchising and how its objective is to dominate markets. We don't say to you, *" I want you to buy one of my franchises. You'll be an independent owner/operator and you don't have to do much."* That doesn't have anything to do with dominating markets. It has to do with selling franchises.

Instead, we say to you, *"We want you to invest with us in developing this market, along with other strategic-partners who, together as a team, will dominate all the markets."* To grasp how this works requires unified thinking about how franchising works.

A franchise is not an independently owned and operated business, like the signs in the windows say. If somebody sells you a business, you own it. If you own it, you can do what you want with it. If you do what you want with it, you can manipulate it, juggle it, tweak it and try all sorts of experiments that suit you. But that isn't franchising.

Who Owns What?

If you don't own the franchise, what do you own? You own the assets of the business, and you are *licensed* to use the Franchisor's brand and the operating system. Think of it as a driving license, or a fishing license or a pilot's license. You have to be trained before you can get the license. It costs you to get the license. You have to keep your fees current to keep the license valid. Important licenses even require you to have ongoing training on a periodic basis. And you have to follow the operating system. If you don't, the licensing authority will take away your license.

Fees

This discussion about assets and licenses leads to a discussion about the fees. If you don't own the franchise, what are the fees for? The purpose and use of the fees is to protect your investment as well as the organization as a whole—which also protects your investment.

Initial Franchise Fee

The initial franchise fee goes toward:

1. The expense of selecting quality strategic-partners who understand franchising as a marketing and distribution strategy to dominate markets and are committed to working hard to make it happen.

2. Training and supporting new and existing strategic-partners to profitably operate their business which, if done correctly, will contribute to their own success and, ultimately, to your success. If others in the organization are a success, you will be a success.

3. Developing and supplying ongoing support systems and material to keep franchise members current with market trends and the means to meet them.

4. Undertaking the ongoing legal expenses involved in protecting the integrity of the franchise, including registering and protecting the trademark and trade name.

5. The expense of monitoring and meeting federal and state regulatory mandates.

6. Conducting ongoing research and development of new products and services.

Royalty Fees
Royalties are paid:

1. For continued revenue, generated by using the brand name (which creates customers) and the operating system (which gets those customers to come back).

2. For the increase in the value of your assets due to your association with the brand name. This continued association continues to produce future revenue.

Brand

Having a franchise license means having access to a marketing and distribution system. Franchising works by driving brand awareness among consumers. The more franchises, the greater the awareness. The greater the awareness, the greater the market share.

Brand awareness is driven by uniformity and repetition. That’s why all the signs are always the same from one location to the next. That’s why the colors and the merchandising are the same. It makes the consumer aware of you. If every time they see the brand—the sign, the office, the people in it—and it is the same, they assume it must be a good place to do business.

We understand that principle from advertising. Any product that is seen over and over again is considered valuable by the consumer. There isn’t any logical reason for this. Americans are simply brand-driven. Other countries are becoming that way, too. Americans are so brand-driven they actually pay money to Hard Rock Café so they can buy sweatshirts that advertise Hard Rock Café! Companies used to pay for their advertising. Hard Rock has the customer pay to carry their advertising around on their shirt. That's understanding brand. That's marketing.

When customers see many signs and decals of the same company over and over again, they conclude, *"I sure see that sign a lot. Must be a good business."* And when the need to buy arises, they conclude, *"Think I'll give them a try."*

In this discussion about brand, remember that the principles apply not only to the Franchisor, but to the Franchisor's branded products as well. Stronger recognition of the Franchisor's branded products as a national brand will be an important customer loyalty building program. It's another example of the power and effect of franchising.

Operating System

We've discussed the first strength of franchising—widespread use of the brand. Brand creates a real or perceived image in the minds of potential customers about who and what we are. The brand, and the marketing associated with it, creates for the consumer an opportunity to buy *from you* when the need arises.

The second strength of franchising is in the operating system, which provides a needed product or service, that if focused on the customer, gets them to come back. From the people in the organization and eventually from experience, you will come to appreciate the scope of the company's operating system. As you master the system, you'll see how the more closely you follow it, the more your operations improve. The more your operations improve, the better your business profits. But the focus must be on the customer. How, then, does the operating system focus on the customer (which also benefits you)?

Enhanced Value

The principles are much the same as those that apply to the brand. If customers experience an operating system that not only provides a needed product or service, but also one that focuses on them, discovers their needs, wants and desires, meets them in a realistic fashion, with an attitude of helpfulness and courtesy, while demonstrating appreciation, it enhances the value of the purchase. That is, they get something they didn't expect.

> When we enhance the value of a product or service, the customer perceives they are getting more for their money. So, when it comes time to buy again, where will they go? They'll come back to us because they get more for their money.

Confirmed Expectations

This cycle generates consumer expectation. If the operating system is implemented every time the customer comes in contact with it, you *institutionalize the buying experience.* The consumer develops a confidence, a belief, that any time they interact with you, they know what they can expect. That's the reason for consistently implementing the operating system. It confirms the customer's expectations every time they do business with you.

People don't like surprises. They don't like to go to a favorite restaurant and not know what service to expect each time they eat there. They don't like to go into the supermarket and find aisles arranged differently every time. In fact, if that's what they found, they would avoid the hassle and go somewhere else. The same principles apply to your operating system.

Consistently applying the operating system protects the reputation of the business because it builds confidence in the mind of the buying public. Changing the system only confuses the customer and leads them to say, *"Wonder what's going to happen now?" You never know from one time to the next. Well, here's Brand X. Let's just try them."*

Word of Mouth

What is the second result of a happy customer? Not only will they return, but they will tell others. The impact of this can't be stressed enough. How did Federal Express generate such a devoted following? By delivering packages on time, yes; but also by people who repeated to their friends, *"When it absolutely has to be there on time, I use Federal Express!"* This perception generates a life of its own. The customer with a need to ship a package thinks, *"My buddy, Matt, says Federal Express has never failed to deliver a package on time for him. Maybe I'll ship it FedEx."* Of course, Matt's had a package delivered late. But his perception is that he "never has." And that's what he communicates to his friends, and that, in turn, influences what his friends will do.

Word of mouth cuts both ways, though. What is the commonly quoted statistic? Nine people won't say they think a product's great, but just one will tell *everybody* about a problem. That negative talk generates a life of its own! And when it comes time to buy, it's a lot easier for people to say, *"I hear they gave Matt a real hard time."* Than it is to take the time and investigate for themselves. So, poor customer service not only drives away repeat business, it drives away new customers, too.

Compliance

Perhaps because these reasons are not well understood by strategic-partners, field support staffs report that compliance is one of the toughest issues they face. But insisting on compliance with the operating system isn't done because it's a legal obligation, but because that's how the organization institutionalizes the buying experience from customer to customer, from market to market. It lets them know and trust that every time they patronize a franchise they can count on the same standards, the same services and the same courtesies.

Strategic-partners ought to insist that everyone in the network follow the operating system. If every strategic-partner can trust that every other strategic-partner is marketing, administering, supervising and conducting business in the same way, they can be confident that no matter who the customer, where the location or what the product, the quality and consistency will be there and the reputation of the brand will be enhanced. The cycle then repeats itself. The brand is enhanced, which drives the market, the operating system is always followed, which gets them to come back, which is why you invested in the Franchisor's business opportunity in the first place. In short, following the operating system *protects and enhances your investment.*

Ongoing Support

The third defining feature of franchising is the ongoing support offered by the Franchisor. Support that is knowledgeable and well designed is in all of our best interests so that our strategic-partners succeed. But sometimes franchisees take this ongoing support as a kind of guarantee that the Franchisor will make them a success. It doesn't work that way.

Making the Effort

The success of Field Support and Corporate Support (Departments and individuals) is successful relative only to the effort you make in using it. This is why any responsible discussion of franchising considers the obligations and responsibilities of *both* parties.

Franchisor support is extensive (publications, P.O.S., telephone support, field calls). All are meant to advance your success. For those of you with business experience, focusing on the customer, crunching numbers, managing people, using computers and monitoring for results is all in a day's business. But for those without experience, or those without experience in this specific, narrowly defined industry, you will be glad help is there.

Customer focus, number crunching, managing people, using computers—these are the fundamentals of running a profitable, healthy business. Wherever you sense you are not meeting your expectations and need to develop your skills—or whenever monthly results fail to achieve monthly projections—take an active role in the planning meetings with your Field Consultant. They are there to help you help yourself, discovering what corrections need to be made to turn those weaknesses into strengths.

If you don't know how to do business forecasting, your Field Consultant can show you how. It only takes practice. If you are having problems with turnover, your Field Consultant can work with you on "people skills." If your margins are not as high as you had hoped, your Field Consultant can look at your margins and help you discover why and what to do about it. Once you have learned these business skills, you'll be able to do them on your own.

Summary

One of the hallmarks of franchising is the strategic relationship between the company and its strategic-partners. This relationship brings with it privileges and responsibilities to both parties.

Franchisor's Responsibilities
There are four major responsibilities the Franchisor has for the success of the system:

1. To build the real and perceived value of the brand to current and potential customers by granting franchises to qualified individuals.

2. To improve the operating system and enhance your ability to generate and retain more and more customers, increase volume and maintain adequate margins.

3. To provide ongoing support to enable you to acquire, develop and mature your ability to build sales, create customers, retain customers and be profitable.

4. To develop a strategy that will maximize opportunities to increase market share.

Strategic-Partners' Responsibilities
There are four major responsibilities the strategic-partner has to the success of the system:

1. To enhance the real and perceived value of the brand name in the minds of current customers and the community by building the business.

2. To get and keep more and more customers by marketing the brand and consistently following the proven operating system.

3. To become more efficient, effective and profitable by using the ongoing support services provided by Franchisor.

4. To understand, support, be committed to and implement the market share building strategy.

Franchising is a customer-focused business relationship between you and Franchisor. Yes, it has a legal structure. Legally, the Franchisor has granted you a license to use its brand and operating system to help it achieve its strategic plan and to give you the opportunity to fulfill your dreams and objectives. The objective is not the enforcement of the legal document, but to get and keep customers and increase market share. That's the reason we're in business.

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