

STRATEGIC FRANCHISING (MGMT 931-A) SYLLABUS FOR FALL 2010

Krispy Kreme is in the final stages of a meltdown after a meteoric run. What's wrong with this picture? Boston Market was one of the hottest IPO's in history, yet ended up in bankruptcy. How did their franchising strategy contribute to the initial success and ultimate failure of the company? Starbucks is one of the best-known brands in the U.S, with an easily replicable concept and success dependant upon multiple points of distribution. Why didn't Starbucks use franchising to expand? How did Century 21 convince thousands of independent local real estate brokers to become franchisees?

Is franchising the most efficient form of entrepreneurship, a marketing tool, a distribution technique, the ultimate capital leverage device, a real estate platform, a combination of some or all of the above, or something entirely different? Franchising is one of the most effective techniques for rapidly achieving high growth with maximum capital leverage and preservation of equity. In the U.S., franchising directly and indirectly currently generates over \$2 trillion dollars annually and represents over 13% of the economy. It has also become a significant factor in international markets, as U.S. companies franchise abroad and international entrepreneurs import U.S. franchising concepts both as franchisors and as high growth franchisees.

COURSE CONTENT

This course will explore the strategic issues related to franchising from the franchisor's point of view, and will equip participants to evaluate whether or not to franchise, and if so, the most effective way to do so. Topics to be covered will include rapid domestic and international growth, capital leverage, equity creation, identification of franchisee candidates and risk analysis. Emphasis will be placed on entrepreneurship and what it implies about operational control and implementation of management strategies from both franchisor and franchisee perspectives.

The question as to whether or not to franchise revolves around the economic and strategic issues of capital and human resource usage, the marketing philosophy concerning brand development, sufficiency of the financial "pie", issues of operational replicability and ease of quality control, and the trade-off between partial loss of control (on both sides) and the benefits of franchising. When dealing internationally additional issues relating to geographic span of control, the rule of law, stages of economic and social development, as well as the whole range of cultural and language nuances are added to the decision mix. Complex as the issues surrounding the decision to franchise may be, the difficulty of actually managing the franchise system presents even greater challenges. Besides the formidable task of running the day to day business, inserting the franchise method of doing business into the mix imposes the most frustrating of business dynamics, i.e., trying to persuade independent minded individuals to conform to behavior that benefits a group, possibly to the short term detriment of the individual franchisee.

Once the decision to franchise has been made, the next issue deals with the profile of potential franchisees. After all, they will be the contact point between our customers and our brand. What are the attributes of the potential candidate that will lead to the successful delivery of our product and conduct of our business as a franchise? Should we consider only individuals or do large companies have a place in our mix? What level of business sophistication should they possess? What are their expectations and are they realistic? How much infrastructure will the franchisor need to support the system, and will the franchise fees support those costs as well as generate a profit? How much should the franchise cost, both initially and ongoing, and can the franchisees afford those costs?

An ongoing issue concerns the managing of advertising funds, which may be solely contributed by the franchisees but expended at the sole discretion of the franchisor. Managing that issue so that current franchisees remain supportive and potential franchisees remain willing to join the enterprise is part of the skill set a franchisor must develop.

How does the franchisor establish and enforce quality standards for the franchised brand? What are the implications in terms of organizational structure of the home office and economics for the franchisor?

The proximity of new locations to existing locations, as well as whether individual franchisees should be allowed to operate more than one franchise location and/or more than one business concept is a particularly troublesome issue. Where does the concept of exclusive territories fit into the mix?

Management of the long term continuing relationship is a very sensitive issue. Franchisees need continuous care and feeding (metaphorically speaking). A successful franchise relationship requires that the franchisees should be an integral part of the franchisor's decision making process. But the degree of that involvement is a slippery slope.

Administrative Matters

This class will explore these issues using both lecture and case discussion methods. The materials have been assembled from various sources since none of the existing texts seemed to be of Graduate School level. Class materials will be available both in a case packet and as handouts.

Blackboard and e-mail will be used to make announcements.

Class discussion and participation will be important parts of the learning process since many of the issues described do not have a clear answer, although there is an approach and process for making the decisions. To insure that all have an opportunity to participate there will be cold calling. Also, please bring your nameplates to all sessions as a five week class makes it difficult to remember everyone by name.

Attendance is critical, especially with the short time frame and due to the fact that class participation will be part of the grade.

Grades will be assessed as follows:

- 1) 25% for class participation
- 2) 75% for a final that will be distributed at the last class session and due one week later.

I am committed to being available to class members. You may contact me by e-mail or schedule meetings at mutually convenient times.

Course Outline

What is Franchising?

- A. Types of Franchises
- B. Threshold Business Issues
- C. Advantages and Disadvantages to Franchisor
- D. Advantages and Disadvantages to Franchisee
- E. Elements of a Successful System
- F. Key Learnings

Starbucks: Why didn't they franchise? (or did they?)

Would you buy this franchise?

- A. Body Shop
- B. WSJ Ads

Choosing Franchisees: What's the Right Profile?

Sources of Revenue

The Role of Real Estate

Infrastructure/Services Provided

Profit Pie to Share

Multi-Level Franchising

Company Owned Stores

What Happened?

- A. Discovery Zone
- B. Boston Market
- C. Krispy Kreme

Conversion franchising

- A. Century 21
- B. Dwyer

Multi-Concept Franchises

Market Development/Encroachment

- A. Supercuts
- B. Real world exercise

International considerations

- A. Why do it?
- B. Where to go first
- C. What's different
- D. Deal Breakers

The Relationship

Sarah Connors

- A. Communications
- B. Inclusion (or not)
- C. Enforcement of Standards
- D. Marketing
- E. Expectations

The Legal Swamp

- A. Litigation
- B. Transfer/Exit Strategy
- C. Succession (Family Issues)
- D. Termination

A futile attempt to catch up

A recap of what we discussed

Open Discussion