

A North American Franchising Philosophy

“Building the Brand”

Given the tremendous success of the franchised form of doing business in North America, it's understandable that some entrants into the market may consider franchising their businesses in the United States or Canada as an almost “automatic” road to success.

The reality is different. No method of business, including franchising, guarantees success, either for the Franchisor or the Franchisee. In fact, relatively few franchise systems, whether domestic in origin or “imported,” ever achieve true market dominance.

Those that do have a number of factors in common, perhaps the primary one being that they share a belief in a guiding principle for the development of their franchise systems: “Building the brand.”

To understand the importance of “building the brand,” let's examine some basic propositions that have guided the development of franchising in North America. These may be helpful for the foreign-based system, so as to understand some of the underlying philosophical assumptions shared by the Americans with whom they will be working.

1. Franchising makes sense at the retail level only if belonging to a franchise system gives the retail units competitive advantages that more than make up for the costs of belonging to the system.
2. If belonging to the franchise system does not give the Franchisee a competitive advantage, as compared to other participants in the industry, the franchised units will not be successful, since they have to bear the additional costs of royalties, mandatory advertising contributions, etc., may be less agile in reacting to market changes, etc. And, if the retail units are not successful, the system will not be successful.
3. The primary factor in increase in value of a franchised retail unit is the component related to the value of the brand. This is why a McDonald's restaurant is more valuable than a David's diner! If the brand does not increase in value, the franchised units will not increase in value.
4. The Franchisor and its Franchisees have, therefore, a single, unifying objective:

Building the value of the brand.

5. **All** other business objectives are secondary. Retail chains that do not build the value of their brand — to be blunt — fail.



6. **Brand value is more important than anything else**, including product quality. The American Franchisors who dominate their markets did not become industry leaders based on supplying a superior product – McDonalds is probably an almost perfect example of this.
7. Successful franchise systems are uniformly characterized by the overall strength of the system and consistent application of standards, operating systems and uniform presentation to the consuming public.
8. The brand is valuable only to the degree that a strong system, with competitive retail advantages, is present.
9. At least in North America, there just aren't very many examples of successful franchise systems which have varying standards, a poor record of franchisees following the system, inconsistent presentation of the product or service, etc.
10. In a successful franchise system, the customer's loyalty is to the brand, not to the individual unit, as emotionally difficult as that may be for Franchisees to accept. In fact, this condition is vital to the success of the system and the Franchisee's recovery of their investment.

For example, if all a Franchisee has to sell a buyer of his or her business is the value associated with the Franchisee's personal skills and related customer goodwill, the buyer will not be likely to place a high price on a business, at least where the seller will be leaving the day-to-day management. On the other hand, if the business has value associated primarily with the brand, that is something any buyer can take advantage of and will pay a fair price to receive.

11. What's critical from the retail consumer standpoint is creating a "comfort zone" through consistent operational and marketing systems.

A franchise system does this by doing three things:

- Making itself unique as compared to the competition.
- Avoiding confusing the customer.
- Consistently presenting a well recognized product or service.

The successful franchise system does this through building brand identity and providing a consistent presentation of the product/service and the marketing message.

12. The job for the Franchisor is, therefore, to think deeply about how the system will articulate its uniqueness in a way that gives the Franchisees a competitive advantage, to build value in the brand, exploit competitive opportunities by "leveraging" on the already established brand value and to foresee and counteract competitive challenges, as well as anything that might diminish the value of the brand.
13. The job for the Franchisee is to consistently implement that system, thereby building value in the brand and their individual franchised unit, while providing "real life" input back to the Franchisor as to how the system can be improved from an operating standpoint.
14. All franchise systems face what we call "centrifugal pressures": Without strong standards and the Franchisees' emotional commitment to them, human nature is such that people will

go their separate ways and the system will fail due to inconsistent messages to the consumer and a loss of strong brand identity.

15. To build and maintain brand quality, methods must be designed into the franchise system to maintain value in the brand and remove those few Franchisees who threaten to diminish the value of the brand.
16. For the Franchisor, success will be based not on his or her knowledge of the underlying retail business, or even the quality of the product or service, but on the ability of the Franchisor to learn the skills related to franchising, which is a profession in and of itself.
17. For the Franchisee, success will be based on the Franchisee's ability and willingness to work within a pre-existing system, helping to build the value inherent in the brand.