

Different Types of Franchises & Strategies

**for Potential Franchisors and
Franchisees**

Early Franchise Entrants



- 1898 - Automobile Manufacturers
- Division of responsibilities:
 - manufacturers - design & production
 - dealers: sales & service

Coca Cola Company



The Coca-Cola Company

- 1886 : coca-cola invented
- 1899 : Thomas & Whitehead 600-word contract promised to open a bottling plant
- 1901 : no capital to open the bottling plant ...?
- 1919 : 1,000 franchised Coca-Cola bottlers

Gas Stations



- 1930's - Depression Era Franchising
- First example of Conversion Franchising
- Taxation of all company-owned gas stations
- Why pay that? let's FRANCHISE
- Also quicker local response to price changes

Fast Food Fifties



- Harlin Sanders - gas station
- closed pumps: 142 seat restaurant
- 1950's: turned down \$164,000
- 1960 (200) 1980 (6,000)
- 2007: 13,433 KFC's world-wide



- San Bernardino, CA 1940
- Dick & Mac McDonald
- inspired by Henry Ford's assembly line
- Ray Kroc - multi-mixer salesman
- world's largest chain of FF-rest's
- over 31,000 locations world-wide

1960's, 1970's, 1980's, 1990's



MAIL BOXES ETC.®

SUBWAY
eat fresh.™

Curves

Franchising Timeline

- 1898 - General Motors, ...Ford
- 1899 - Coca-Cola
- 1930 - Gas Stations
- 1952 - KFC: 13,433
- 1955 - McDonalds: 30,823
- 1964 - 7-Eleven: 31,680
- 1974 - Subway: 26,197
- 1980 - Mail Boxes Etc. 5,760
- 1995 - Curves: 9,882
- 2001 - Geeks On Call: 305

Principles of Franchising

- 1,550 company-owned restaurants
 - Revenues \$1.69 billion
 - Expenses \$1.42 billion
 - Pre-Tax Profit \$270 million (16%)
-
- 4,550 franchised restaurants
 - Revenues \$486 million (royalties)
 - Expenses \$ 78 million
 - Pre-Tax Profit \$408 million (84%)

Types of Franchises

- Manufacturer-Retailer (auto & gas)
= 70% of franchise sales
- Manufacturer-Wholesaler (coca-cola)
= 3% of franchise sales
- Business Format (McDonalds, Hilton)
= 27% of franchise sales
- Franchising in the Economy (1986)
last year Dept. of Commerce collected data
how has franchising evolved since then?

Franchisor Strategies

- Advantages Of The Franchise Model
 - OPM expansion
 - franchise & royalty Fees
 - leverage IP assets
 - efficient market penetration
- Disadvantages Of The Franchise Model
 - does not solve existing problems
 - initial development costs
 - entering a new business: new expertise
 - profile ‘problems”

Feasibility Analysis

- Is the concept franchise-able?
4 marketing P's: product, price, promotion, place
- Transferable PBS
operations manual(s), training program, IP
- Management audit
management depth
management abilities
- Written evaluation & ratings
operations, marketing, management, financial

Strategic Franchise Planning

- Developing a franchise infrastructure
- Protecting IP
- Competitive positioning & pricing
- Education & training
- Field services & support
- Franchise profile
- Franchise marketing

Franchise Documentation

- Operations manual(s)
- Training program
- Legal documentation
franchise contract, franchise offering circular
- Franchise marketing materials
brochure, application, press releases, web page
- Franchisor operations manual
- Franchise registration application(s)

Dual Distribution & Expansion Strategies

- Dual Distribution
 - mix of company owned vs. franchised
- Expansion Strategies
 - exclusive territories; geographic scope
 - conversion franchising: Mrs. Fields Cookies (1990)
Snap On Tools (1991) Petroleum Stations (1930's)
 - area development
 - master franchising - subfranchising
 - international franchising

Franchisee Strategies

- Industry Trend
- Investment Level
- Breakeven Point
- Working Hours
- Income Level
- Number of Employees
- Location & Lease
- Lifestyle & Image
- Master Franchisee, Area Developer
- Sell off franchise(s) & be a Franchisor