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HIDDEN SUPERIOR MARKETING SYSTEMS OF FRANCHISEES: A COMPARISON OF HIGH VERSUS AVERAGE PERFORMERS

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Abstract

Our aim is to understand better why there is a variability of performance among franchisees in a given system. Although we intend to eventually use a quantitative framework, it was felt important to initially use a qualitative, case study approach, to get a clearer picture of the main issues and parameters. Nine franchisees across three systems were interviewed, with the results reported here. Major contrasts have been identified between high and average franchisee performers in terms of their marketing and management practices.

Introduction

Two main areas of literature were reviewed. Firstly, the franchising and SME literatures were examined in terms of success factors. Secondly, factors related to franchisee performance and building the franchisor-franchisee relationship were reviewed. Rather than focusing on characteristics relating to SME and franchise unit *success*, the emphasis of most of the literature has been placed on causes of failure. Since, in many cases, small enterprise success and failure are inversely related, an examination of this literature reveals factors that are relevant to the present discussion, namely attributes related to successful SME operations. Most franchise units are also SMEs, but the unique nature of the franchising relationship introduces some additional considerations.

Of greater relevance to this current research is the literature pertaining to *causes* of SME failure and determinants of success. Two predominant causes of SME failure are acknowledged to be a lack of financial capital by investors and deficient management (*including marketing*) skills and ability of entrepreneurs (Everett & Watson 1997). The personal characteristics and innate business acumen of SME owners have been linked to success and failure (Perry, Meredith & Cunnington 1998). In addition to these individual characteristics, internal and external environmental factors have been associated with SME performance (Everett & Watson 1997). Internal factors occur within the business entity, such as personal issues affecting the owner, whereas external factors are caused by the external environment and are beyond the entity's control, such as a downturn in the economy or rising interest rates. The success of the system relies very much on the strength of the franchising relationship (Nathan 2000). Indeed, franchising allows participants to perform at higher levels than they could alone (Brown & Dev 1997). This cooperation and specialisation of roles enables franchisors to perform management functions such as strategic planning and marketing and franchisees to concentrate on the delivery of customer service (Stanworth 1999). To achieve this balance in their roles, franchisors and franchisees need to work closely together as a team in pursuit of shared goals rather than emphasise individual interests (Brown & Dev 1997). Hence, factors such as trust, cooperation, commitment and loyalty are important qualities in the

franchising relationship (Lim & Frazer 2002). The literature on marketing theory similarly emphasises the relationship between trust and cooperation, i.e. that trust leads to cooperative behaviour and decreases uncertainty (Morgan & Hunt 1994).

Despite the synergies provided through franchising, some franchisees will still fail and such failure is largely caused by inadequate franchisee selection procedures (Frazer 2002). In addition, there is a great deal of variation in the performance levels of surviving franchisees. Whilst around 25 percent of franchisees are high achievers, some 40 percent are rated by their franchisors as being steady performers (Nathan 2003). It is the aim of the current research to compare the marketing and management approaches used by these two groups of performers.

Research Design

Essentially our aim was to choose two franchisees from each franchising system that differed greatly in terms of overall performance and to contrast their approaches to marketing and management. The rationale for this choice was that to identify whether two franchisees that differed by as much as 30% in performance used radically different marketing methods. Our presumption was that the high performing franchisees did use superior marketing methods, but we had limited *detailed* pre-conception as to exactly what shape the superior marketing approach might take. Franchises within the service and retailing areas were approached to put a notional limit on the scope of the study, with the time frame controlling for other external factors such as the economy. Consent to participate in the study was sought from the franchisor owner, to whom the purpose of the study was explained and for them to nominate franchisees that accorded with our selection criteria, notably high, average and hybrid (explained below) performance.

A total of nine interviews were conducted. This was slightly more than we anticipated, mainly because two types of “average performer” franchisee were identified. In the course of our study we discovered that there were two types of “average” franchisee performer. The first type is average in a steady state sense, that is someone who has been average for a couple of years and who seems destined to remain close to that level in the future. A second type is someone who has risen up the ranks very quickly, happens to be average at the time of interview, but is destined to be a high performer in the near future. Thus we were led to define a third category, a hybrid category of franchisees, namely franchisees who are *currently* average in performance, but on a rapid growth (fast learning) trajectory and destined to move into the top quarter of performers in the next year or two. Franchisees in this category often had previous franchise experience in another system and had only moderate (say 1-2 years) experience in the current system. They are destined to become high performers over the next two years. *Average performance* is a transitory state for this *hybrid* type of franchisee.

Case research was used to contrast the different approaches to marketing and management among the three groups of franchisees, namely high, average and hybrid performers. A total of nine franchisees were interviewed from three Australian franchise systems. That is, one high, one average and one hybrid average franchisee were selected by the franchisor on our behalf for three different systems. Cases were added until theory saturation was reached. The scope of the interviews was in two parts. Firstly, the services provided by the franchisor were ranked by the franchisee, in terms of their value to the franchisee. Secondly, and forming the main part of the

research, each franchisee was questioned about eight key areas of marketing and management. The research objective was to ascertain the salient differences in their marketing and management approaches.

Findings

The findings of our research are split into four sub-sections, each of which contrasts the high performing with the average and the hybrid franchisees.

Findings I: Franchisee Perception of Services Provided by the Franchisor

At a general level we ascertained that the types of services most sought by the high performing franchisee were in the marketing and branding area. That is, the ideal support needed by this group emphasised the high level, even national image support that builds awareness and reputation for the franchise as a whole. The high performing franchisee group placed less reliance on support services, such as training and day-to-day support, because they were very self-sufficient.

In contrast, although marketing and branding were also desired by the average performing franchisees, these were ranked lower as a need. The average performing franchisees instead had much greater need for the full range of services provided by the franchisor, including training, product advice, accounting and general management.

The hybrid performers were intermediate, but closer to the true average performers. This might reflect the fact that they were able to grow rapidly from a small base and therefore did not really need any further stimulus from franchisor marketing (until later). As such the hybrid performers have different needs from currently high performing franchisees, which may be closer to exhausting the income potential of their territory. Moreover, the rapid growth of hybrid franchisees meant that they were experiencing growing pains, various emergencies and issues, requiring ad hoc support from the franchisor.

Findings II: Differences in Marketing Capabilities

The interview questions were based on how the franchisee “grew the business”; how they achieved the highest profit margin/price; how they cross-sold products; and how they developed loyalty among their client base.

There was a very clear difference between the high and average performers. The high performers more pro-actively grew the business, with much greater targeting of future clients and less aversion to cold calling. The high performers had a greater percentage of A-level clients compared to the average performers. This meant a greater success in generating value rather than simply volume of business, thus achieving a higher rate of return on time invested. High performers were also able to achieve higher rates of cross-selling and they more actively managed their loyal customers.

With respect to the hybrid franchisees noted in the previous section, they are positioned intermediate to the high performing and the low performing franchisees, though in marketing terms seemed to be closer to the high performers. Certainly they seemed to operate on a similar aggressive or determined mindset.

Findings III: Differences in Management Capabilities

In terms of the three key management variables analysed, there were significant differences between the two main types of franchisees. Probably the biggest difference was in terms of productivity or efficiency. There seemed to be productivity differences between 25-30% comparing the high performers and the average performers. There are only a fixed number of hours to work in a week and the high performers get more out of those hours.

There seem to be three main reasons for the higher productivity. Firstly, the high performers have a better technique, such as painting or detailing a car, which enables a higher quality job in a faster time (including less re-doing of work). Sometimes this greater productivity is helped by the initial qualifications or skills of the franchisee, but is enhanced through training, experience and confidence over time. Secondly, efficiency is increased through being well organized in terms of route planning and job scheduling. Thirdly, productivity is increased by the franchisee upgrading the proportion of quality clients over time. This is the point that we covered under marketing under the heading of gross profit margin management.

Apart from productivity management, there were also some differences in asset management and expense management. In terms of asset management, high performers seemed to go one step further in caring for and servicing assets. A high-performing detailer had constantly won the prize for the cleanest van. Average performers were less obsessive about cleanliness, and while maintaining external appearance, might lapse when it came to the internal appearance of the van. High performing franchisees also paid more attention to inventory control, ensuring that inventory levels were not excessive. An average franchisee was told by their franchisor when the latter looked in his van: "you don't need all this stock!" In terms of expense (cost) control, both the high performer and the average performer "watched" what was happening to costs. However the watching was more rigorous in the case of the high performing franchisees. Procurement was more closely scrutinised to make sure that the most appropriate products were purchased. High-performing franchisees were more likely to use a more detailed accounting system to control costs and a diary to plan cash flow expenditure.

In terms of productivity/efficiency, asset management and expense (cost) management, the *hybrid franchisees* were intermediate in the way they approached their management. They had a high rate of productivity, greater than the low performers and less than the high performers. Similarly, in terms of asset management and expense management, they were doing a good job, but with some room for improvement.

Findings IV: Differences in Personal Characteristics

It seemed to happen partly by chance and mainly by a strong personal drive by the franchisee to be good at *all* aspects of the business. In general, high performing franchisees were more driven and ambitious than other franchisees. They have more confident personalities and see setbacks as opportunities rather than problems. Also, they tend to act as mentors for other franchisees – they like to share their knowledge and do not feel that they are competing directly with other franchises.

Discussion: The Hidden Nature of a Superior Franchisee Marketing System

The hidden nature of the different approaches was not revealed by any explicit questions asking about differences or why someone was better. Indeed, we were very careful to ask the *same questions* of all franchisees in order to *discern* differences. Although we were clearly able to ascertain the differences in marketing and management approaches used by high and by average franchisees, it did not seem that any party was really aware of these dramatic differences. Perhaps the large differences that we observed are buried in the full population of the franchisees, with more gradual differences if you line them up in ascending order. It is only by comparing two extreme groups, as we have done, that the differences become noticeable. This is the main contribution of our paper. Moreover, we infer that the *different* marketing system used by high performing franchisees is a *superior* marketing system, by association. Such an inference seemed to have *face validity* (for example, it was superior marketing to have a higher percentage of A-level clients) to us as we conducted the research, but requires quantitative research to be more conclusive.

Conclusions

A major finding is that marketing and branding services were valued more strongly by the high performing franchisees. This suggests that the high performing franchisees were more marketing orientated and therefore greatly appreciated the marketing and brand support provided by the franchisor because that helped the franchisee market their business.

In terms of the franchisee's own marketing and management approaches, these were much stronger in the case of the high performing franchisees. In particular, high performing franchisees were much stronger in all aspects of *marketing*, including being able to grow the business, to cross-sell, to get higher profit margin sales, to develop and manage loyalty among customers and to forge closer links with the franchisor. The high performing franchisees were also much stronger on all aspects of *management*, including controlling expenses and asset management.

Notwithstanding, the observed superior marketing system of the high achievers was not very explicit, well coded or holistically recognised by the franchisee. It seemed to happen partly by chance and mainly by a strong personal drive by the franchisee to be good at *all* aspects of the business. In general, high performing franchisees were more driven and ambitious than the other franchisees. They have more confident personalities and see setbacks as opportunities rather than problems.

The superior marketing machine of high performing franchisees seemed to be largely *hidden* to both the franchisees and the franchisor. This is a remarkable and somewhat unexpected discovery. The *very notion* of business system franchising implies that there is a well-developed marketing system applicable to all franchisees and that it is simply a matter of rolling out a homogeneous system throughout the network. *Inter-franchisee variability of marketing* is assumed to be either zero or very small, as the McDonald's system exemplifies. The fact that the superior marketing system was hidden means that it cannot be fully harnessed as an organic capability, by either the franchisee, or alternatively by the franchisor to diffuse throughout the rest of the franchisee network.

We suggest that there is a great opportunity to improve franchisee marketing-performance by greater recognition and articulation of superior marketing systems devised by successful franchisees. Obviously there will always be subtle differences

across franchising systems, reflecting the different demands of each system. However, as we have tentatively shown, there do seem to be *common* aspects of the components of this superior system. More research is needed to verify and test our implicit model of a superior franchisee marketing system. This is best done in a future quantitative study.

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