



Asia-Pacific Centre for Franchising Excellence



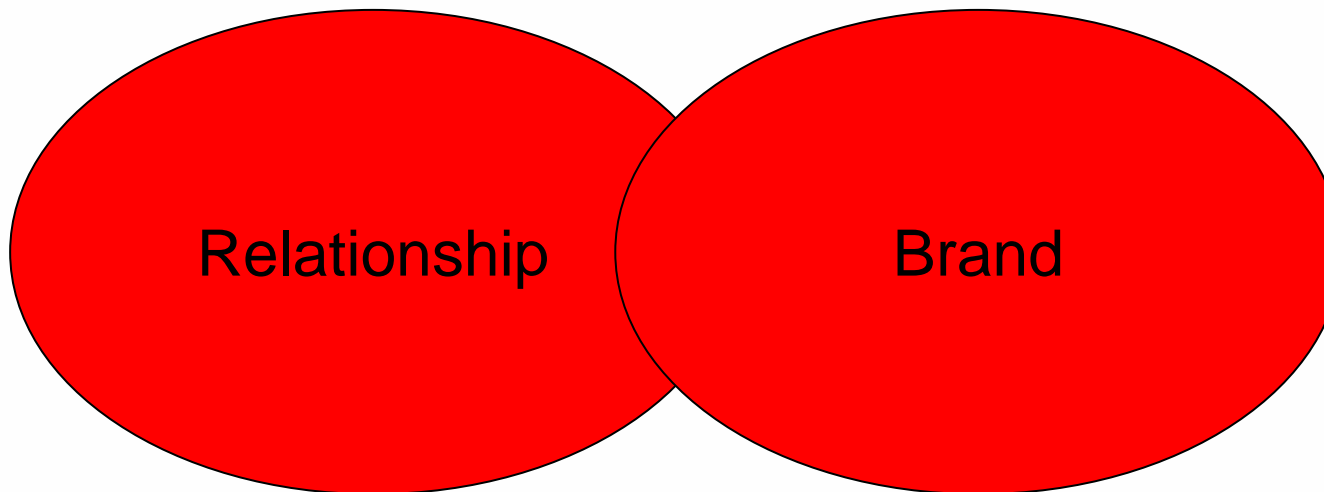
The Ex-Factor

How to stop ex-franchisees destroying your system

Lorelle Frazer

Jason Gehrke

Asia-Pacific Centre for Franchising Excellence



Importance of the Brand



Unhappy franchisees ...

- Vent frustration through
 - Chain emails
 - Approaching politicians
 - Media interviews
 - Meetings of franchisees
 - Anti-franchise websites and blogs
 - Exiting the system

...the angular distance of a point in an orbit past the point of periapsis...

SATURDAY, NOVEMBER 19, 2005

Franchising Sucks

As you may know, I have been exploring many different ideas for businesses to run so that I could make more money. One of the kinds of businesses I have looked into is fast food franchises. There are two places in particular that are not near my new house here in the Denver area, and it would be really cool if I could open one or the other up. What are those places? [Sonic](#) and [Long John Silver's](#).

Unfortunately, it seems that anyone that wants to open up a fast food franchise needs to be wealthy already. Here are the franchise requirements for:

Sonic:

- These are the basic requirements to own a SONIC franchise:
 - The term of a SONIC franchise is 20 years, plus a 10-year renewal. The franchise fee is \$30,000, with a total initial investment ranging from \$710,000 to \$2.3 million.
 - You must have prior or current successful restaurant experience and/or strong entrepreneurial skills.
 - Royalty fees are 1 to 5 percent; advertising fees are 4 to 5 percent.
- Financial Requirements Are:
 - Liquidity Net Worth
 - 1 Store \$500,000 \$500,000
 - 2 Stores \$1,000,000 \$1,000,000
 - 3 Stores \$1,500,000 \$1,500,000

True Anomaly by Astrosmith



Glenn Reynolds says:

"I only wish I were a rocket scientist instead of a law school professor."

Astro's Email

astrosmith(at)yahoo(dot)com

Football Picks

- 2007 NFL Winner: ?
- 2007 NCAA Winner: ?

NCAA Basketball Tournament Picks

- [Yahoo! NCAA Tourney Pick'em Game](#)
- Link to join [True Anomaly Group](#)
- Group ID: 39216
- Password: astro
- Note: You must set up a Yahoo! ID account to play.

Astro's Other Blog

Unhappy franchisee exits

- Sell up and move on
- Walk away
- Continue operating but under a different name

Brand 'piracy'

Franchisees who 'exit' the system but continue operating in the same line of business



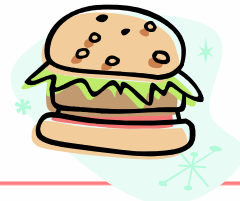
Brand piracy

- Unauthorised use of copyrighted or patented goods or **ideas**
- Occurs when a former franchisee continues to use the franchisor's intellectual property



How much intellectual property is there in flipping a burger?

- Proven and documented system of operation in all aspects of the franchise
- It costs significantly more to enter a franchise than an independent business



Is Brand Piracy a big issue?

- Survey -148 franchisor respondents
- One third had franchisees who had left the system but continued to operate
- Most had only one franchisee in breach
- One quarter intended to take legal action
- Common across different industries, sizes and age of franchises

A close-up view

- 6 case studies x 3 participants
- Retail and service industries
- Franchising 10-30 years
- 5-200 franchise units

(Research conducted by Lorelle Frazer, Bill Merrilees & Owen Wright)

What we discovered

- All were cases of brand piracy
- Each party blamed the other
- Franchisor perspective
 - underperforming, non-complying franchisee
- Ex-franchisee perspective
 - Disconnected
 - Service disappointment
 - Now operating successfully
- Non-competition covenants and legal action

Why piracy occurs

- Franchisees who leave and those who stay are different
 - Different perception of value of support
 - Different expectations of franchisor and themselves
 - Different sets of ethical principles
- Disconnected franchisees feel they have the right to set up in opposition

Does it really matter?

- Competition is not the issue
- Pirating franchisees are an extreme example of a dysfunctional relationship

Do you have an effective franchisee exit policy?

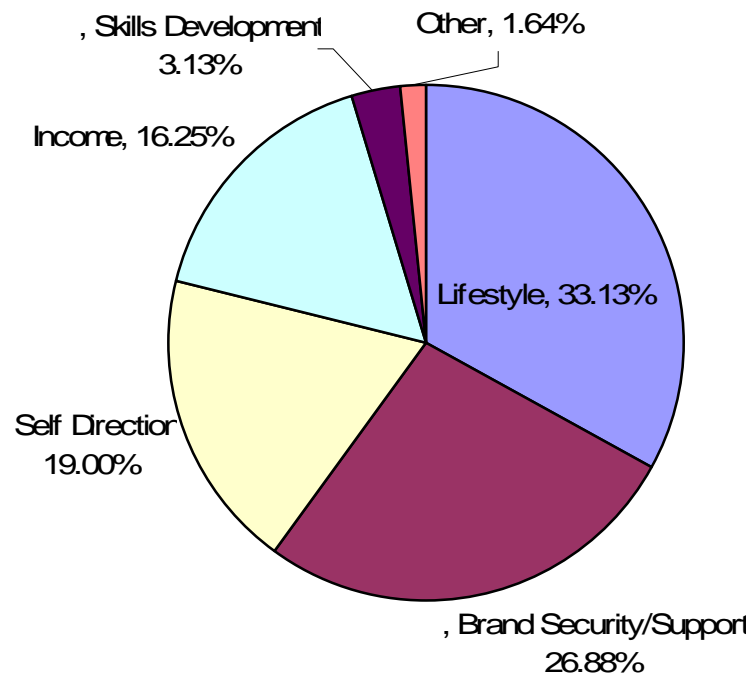
- Proactively manage franchisees when signs of stagnation appear
- Motivate and re-energise franchisees
- Facilitate early departure where needed

Remain on good terms
with your ex-franchisees!

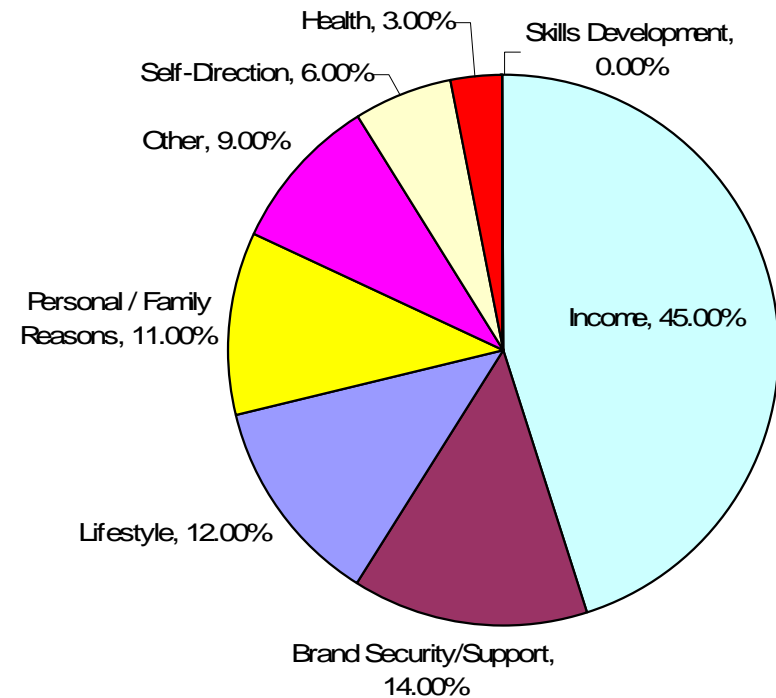
1. Why do franchisees join & leave?

2007 Service system case study

Reasons for becoming a franchisee



Reasons for ceasing to be a franchisee



Franchisee departures:

- Willing and/or voluntary.
- Unwilling and/or involuntary.

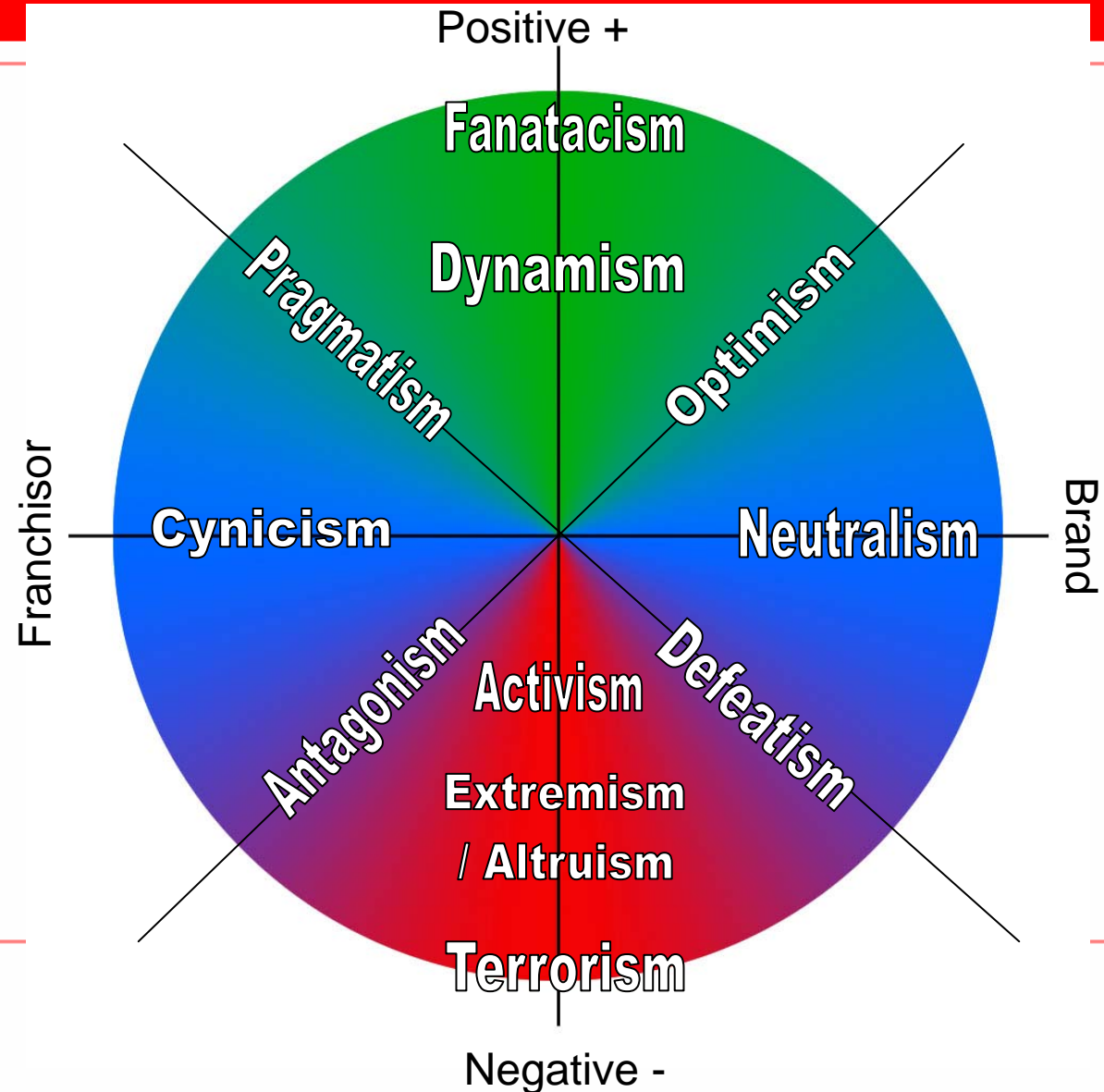
5 Stages of Grief:	
Denial	This isn't happening – it's just a bad dream!
Anger	<i><u>You can't do this to me!</u></i>
Bargaining	Can't we try again? / If only it'd been different
Depression	I'm done for. All is lost.
Acceptance	It's happened – time to move on.

Adapted from Elisabeth Kubler-Ross "On Death & Dying", 1969

3. The Cycle of Franchiseeism

Levels of Engagement:

- Positive**
- Passive**
- Negative**

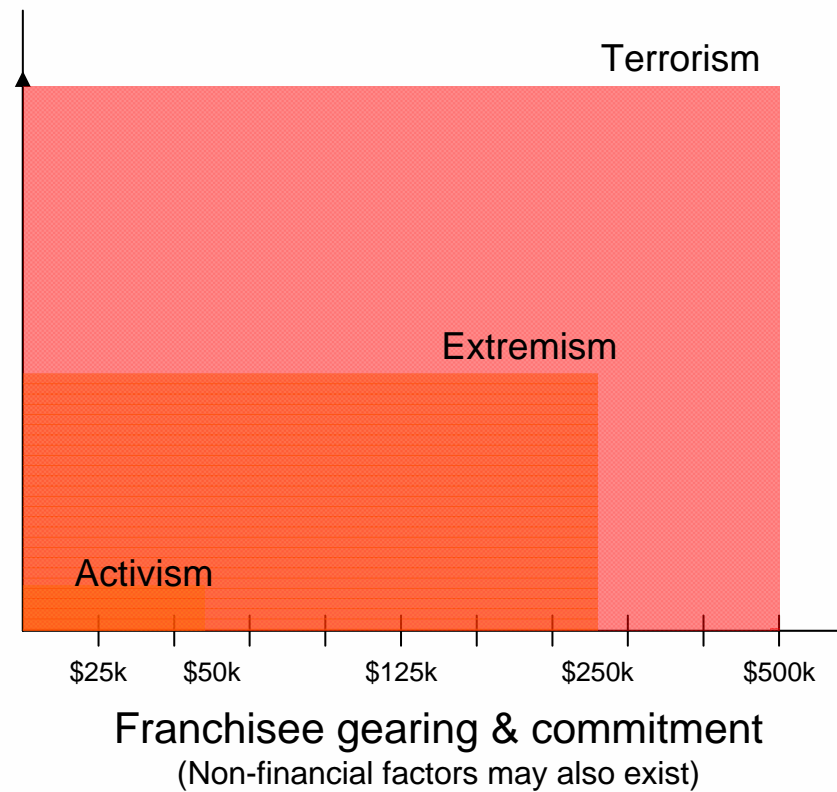


4. Symptoms of negative Franchiseeism

<p>Activism</p> <p><i>Primarily action within the system</i></p>	<ul style="list-style-type: none"> ▪ Complaints to franchisor outside of system channels; ▪ Outspokenness/hijacking or boycotts of meetings. Self-generated meetings; ▪ Soliciting support via emails. Violation of intranet protocols. Rumour-mongering; ▪ Legal correspondence, non-payment or dispute over royalties; ▪ Contact avoidance, cessation of reporting, denial of field visits; ▪ Non-approved products, services or supplies, etc. ▪ Formation of independent brand-specific franchisee associations.
<p>Extremism (Altruism)</p> <p><i>Primarily action outside the system</i></p>	<ul style="list-style-type: none"> ▪ Complaints to external authorities: ACCC; FCA; AFA; ATO; suppliers; ▪ Media reports (Newspapers, magazines, TV and radio); ▪ Political lobbying; Litigation / class action; ▪ Brand-switching / competition piracy;
<p>Terrorism</p> <p><i>Action anywhere, irrespective of casualties</i></p>	<ul style="list-style-type: none"> ▪ Anti-franchisor / anti-brand websites; ▪ Vexatious litigation or vexatious complaints to authorities; ▪ Product-tampering; industrial espionage; ▪ Stalking, blackmail, threats, violence

4. Risk profile of negative franchiseeism *“Escalation of Aggravation”*

Franchisor risk of
franchisee action



- Test & prove viability of the model;
- Establish measures for sales & operational activities;
- Set benchmarks for each measure to achieve optimum performance;
- Require upfront franchisee business plans & personal expense plans;
- Ongoing monitoring to compare business & personal expense plans against benchmark measures;
- Early intervention when variation detected.

6. Review & improve agreements & processes

- Train staff and franchisees on agreement provisions;
- Set minimum levels of service activity to support franchisees;
- Appropriate breach procedures (with coaching where req.);
- Uniform application of agreement;
- Amend agreement to prohibit registration of brand and trademarks as part or all or any internet domain or email address;
- Amend as above for usernames in online & virtual weblogs, forums, chatrooms, social networking sites, etc;
- Monitor online brand integrity.

7. Review & improve franchisee exit processes

- Franchisor dispersal of funds in franchisee resales;
- First move during renewal period (3-12 months prior);
- Formula for or pre-agreed buy-back price (eg. BMW);
- Pre-departure education on restraint and enduring provisions of the franchise agreement;
- Franchisee “passing-out” ceremonies (“burying the past with honour”);
- Franchisee exit interviews (before and after exit – refer 5 Stages of Grief)

8. Positive franchisee engagement post-relationship

- Establish alumni of past franchisees:
- Involvement in mentoring and/or training functions;
- Hall of Fame induction/participation;
- Conference guest speaker / delegate opportunities;
- Subscription to network newsletter / limited intranet access;
- Access as a holiday relief resource for existing zees;
- Customer-for-life discount or reward card

Summary - Dealing with ex-franchisees:

1. Understand why franchisees join and leave;
2. Understand franchisee grieving process;
3. Consider the stage of Franchiseeism involved at departure;
4. Identify symptoms & risk of activist, extremist & terrorist activity;
5. Review & improve business model;
6. Review & improve your agreements & processes;
7. Review & improve your franchisee exit procedures;
8. Develop processes for positive franchisee engagement after the relationship has ended.

Discussion

Asia-Pacific Centre
for
Franchising Excellence