

## Welcome to IF Consulting's weekly e-mail newsletter

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Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

This newsletter is also available as a PDF on our Website (<http://www.i-f.com/E-comLinks02.htm>) if you want to download a version for your hard copy file.

### Diversifying the franchise portfolio

It's often a perfectly natural step for franchisees to expand by buying more businesses of the same type as their original operation. Others grow by diversifying and buying into totally different types of business.

According to Don DeBolt, president of the International Franchise Association, a Washington, D.C.-based trade group, acquiring different franchises is a fairly recent trend that continues to grow. In the US, franchisees have negotiated the right to own and operate other franchises during their franchise term, a practice that was prohibited by many franchisors just ten to fifteen years ago.

Although some franchisors still require that a franchisee devote full-time attention to the operation of the franchise, in many cases franchisees are not involved in the day-to-day operation of the business, leaving the operation of the franchise to experienced management and other employees. DeBolt says that franchisors realize that many franchisees are really investor groups intent on running businesses well to maximize the return on their investments; these franchisees rely on managers to operate their companies

<http://www.miami.com/mld/miamiherald/business/7363745.htm>

### IF Comment

Should the franchisee be fully dedicated to the franchised business and prevented from taking on additional franchises? The question cannot be answered with a simple yes or no. It really depends on the nature of the franchise business and the particular skills that are required to manage it.

Although the article suggests that it is a recent trend not to require franchisees to manage the business, there have been industries, like the hotel industry, where this practice has been commonly used for many years through the so called management contract. This is a particular contract where the franchisee, in addition to signing a franchise contract with the hotel company, also signs a management contract with the same hotel company which takes over the running of the property. In this case, the franchisee is really acting as an investor.

This practice makes sense where the franchisor is more interested in the financial investment of the franchisee rather than his/her entrepreneurial drive or managerial skills. On the contrary, if the franchisor is looking for the entrepreneurial drive typical of an independent owner/operator, then the franchisee should be required to be fully dedicated to the franchises business.



Marketing Channel  
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Maximizing shareholder value  
through creating the best route  
to market

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Experience and testing can really only tell whether a business needs a fully dedicated franchisee. A simple solution would be to modify the typical contractual clause that prevents the franchisee from owning and operating another franchise by allowing the franchisor to grant this right at its sole discretion.

## **Snippets**

Coffee chain operator Restaurant Brands opened a new-style "Metro" Starbucks store in Auckland this week and has plans to open more. The new style stores are smaller coffee-to-go outlets, as opposed to the larger style dine-in cafes. The chain has grown rapidly since the first store opened in New Zealand in 1998, which can have its advantages and disadvantages. "I think we over-did new openings a bit at the expense of existing businesses," Restaurant Brands chief executive Vicki Salmon said

<http://www.stuff.co.nz/stuff/0,2106,2743484a1864,00.html>

Printer giant Hewlett-Packard announced plans to introduce a music download service as well as enter the consumer electronics market with its own music player and a line of flat-panel televisions. It seems the moves are direct responses to Apple's pace-setting music download store and Gateway, which made an early move into home-electronics.

<http://www.ecommercetimes.com/perl/story/32287.html>

Microsoft said this week that its storehouse of patents, copyrights and trade secrets would become increasingly available to outsiders as it loosened its intellectual property licensing policy. This move represents another step in the company's journey to improve relations with other companies and show regulators that it is not acting as a monopolist, but rather, a responsible industry partner.

<http://www.iht.com/articles/120176.html>

## **Share the Knowledge.**

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