

Welcome to IF Consulting's e-Newsletter

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

Franchise must deliver the goods

Many UPS franchisees across the US are unhappy; the business improvements that looked so promising when UPS acquired the Mail Boxes Etc. shipping chain have not eventuated – for some, things have gone downhill since the acquisition. Franchisees are complaining that UPS' policies have squeezed their revenue and profit margins, while they've also had to bear the brunt of the costs associated with converting their outlets to the UPS store model. As a result, franchisees are struggling, and of the ones that haven't walked away from the business, many have joined openly hostile litigious groups.

The scenario reflects a culture clash between a company known for its efficiency and individual entrepreneurs who don't want to be told what prices they must charge and which uniforms they must wear. One franchisee, Mr Houser was looking forward to the change for he figured that the UPS reputation would send customers rushing into his Mail Boxes Etc. store. According to Houser, UPS indicated that volume could even increase to US \$1 million in annual revenue, about four times the amount the shop was generating at the time. Nowadays, Mr Houser is wondering if he can stay in business: anticipated volume increase never happened, profit margins disappeared as UPS cut the fees he got for handling packages and the company opened another store nearby.

<http://startup.wsj.com/franchising/franchising/20060509-gibson.html>

IF Comment

Older, established companies that operate with a "top-down command-and-control" approach often have difficulty when they venture into the area of franchising. Entry into franchising requires a change in mindset, and the difficulties described in the article above are not uncommon when that mindset change doesn't happen.

Engaging in a cooperative relationship with entrepreneurs requires the franchisor to understand that each franchisee is also a business owner, and not an employee. Thus, the franchisor must avoid making radical changes (e.g., pricing, supplier limitation, rebranding) without due consideration and proper preparation and communication, as these changes may have substantial impact on franchisees' bottom lines. In the UPS case, these changes were felt even more sharply because the previous franchisor had allowed the franchisees a much greater degree of latitude in operations. Restrictions on the freedom to operate and innovate will irritate even the most obliging franchisee.

There are also important challenges in overall channel management when the franchisor continues to operate its own channel. Multiple channels can cooperate in marketing and service delivery to achieve economies of scale and incremental sales, but the risk of damaging channel conflict must be managed.



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through creating the best route
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Snippets

Although it has no plans to abandon its direct-sales model, computer manufacturer Dell will open two stores in the US this year. The stores will not carry inventory; the aim is to get customers will be able to try out display models and then order products through the company's Web site.

http://news.zdnet.com/2100-1040_22-6075868.html?tag=nl.e589

UK sandwich chain Benjys poor results for the year to March 2005 has raised questions over the company's ambitious plans to extend its franchise model. At least four franchisees had closed for business within the past six months. Although the company is talking about expanding the 70 current stores to a target of 250, some franchisees are voicing their concerns that the business model is not sustainable.

<http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2006/05/12/cnbenj12.xml&menuId=242&sSheet=/money/2006/05/12/ixcitytop.html>

Two franchisees whose restaurants went out of business have filed lawsuits against Bear Rock Café. The company, in the midst of ambitious expansion plans, is being accused of making "intentionally or negligently misleading and false" representations about owning and operating a Bear Rock franchise.

<http://msnbc.msn.com/id/12911679/>

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