

Welcome to IF Consulting's e-Newsletter

July 1, 2008

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

Will the Franchisees bounce back?

On the same day a Clark Rubber franchisee received an award from its Australian franchisor for the highest sales growth, his store was placed in receivership. Facing difficult trading conditions has been enough of a challenge for many of the chain's franchisees, but the mistakes the franchisor appears to have made have made earning a dollar even tougher for its storeowners.

Given the current economic conditions, it's possible that Clark Rubber would have benefited from a different approach to its expansion strategy and locations of stores. The company has now made a decision to pull back on new store development to concentrate on supporting existing franchisees through the tough times.

One of the big issues the company now faces comes as a result of its willingness to allow franchisees to operate multiple outlets. A number of franchisees over-extended themselves to set up franchises close to existing territories in order to protect their primary business, but, facing slowing demand, have instead had to close their new stores and saddle their franchise with substantial debt.

Franchisees struggling to continue trading are not unique to Clark Rubber however, a number of franchise systems across Australia are under pressure. Budget jewellery chain, Kleins has collapsed, forcing the closure of 130 small businesses.

IF Comment

Although the above story is Australian, it is indicative of what appears to be a widespread problem that is growing faster than franchising itself - things are not really what they seem. Australian and international franchising studies focus on the fastest growing franchises. Rarely is the word profit mentioned.

Franchise companies such as Kleins go broke, catching all franchisees by surprise. The failure was a surprise despite Australia's disclosure document regime. A Clark Rubber franchisee with the chain's fastest growth rate went into receivership (chapter 11) on the day he was to receive an award at the company's annual conference. Again, things are not really as they seem.

While much has been written about franchisee failure rates being much lower than those of independent businesses, little has been written about franchisor failure rates, which were over 60% in Australia in the early 1990's. Smaller companies franchise to achieve rapid growth with limited capital. However, rapid growth can get out of hand if unproven franchisees are allowed to own and operate multiple franchises.

Public companies are required to publish half yearly results in Australia and quarterly results in the US. Why aren't franchisors required to do the same?



IF International

Marketing Channel

Strategy Consultants

Maximizing shareholder value
through creating the best route
to market

IF International

ACN 004 783 519

email.channels@i-f.com

www.i-f.com

USA

Europe

Australia

Snippets

Following on from the Internet business models adopted by musicians, filmmakers are transforming the movie business by handling marketing, distribution and DVD sales.

http://www.businessweek.com/smallbiz/content/jun2008/sb2008065_226261.htm?chan=search

Midas, Inc. has acquired the assets of G.C. & K.B. Investments, Inc. and its affiliates, the franchisor of 181 Speedee quick-lube and automotive maintenance shops in the U.S. and Mexico. Speedee's U.S. retail sales are comprised mostly of oil changes and other fluid replacements, while brake services account for nearly 40 percent of sales at a typical Midas shop. The acquisition is part of a co-branding strategy, and the company plans to add Midas brake services to existing Speedee locations.

<http://www.earthtimes.org/articles/show/midas-acquires-franchisor-of-181-speedee-auto-service-centers,333836.shtml>

Burger King will open 'mini' restaurants called Whooper Bars that will focus on its top-selling sandwich. Whooper Bars will have fewer items on its menu than regular Burger King locations and will be located in areas with little space such as airports, casinos and strip malls.

http://www.denverpost.com/business/ci_8737791

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