Franchise Cultures

Understanding franchise cultures and guidelines for influencing positive and sustainable change.

Business leaders choose franchising over traditional business models for two primary reasons:

1. Brand expansion utilizing the capital and labor supplied by a network of independent franchisees.
2. Local ownership advantage of franchisees being more committed to success than non-owner staff.

Additional primary differences and tradeoffs between franchised and traditional businesses:

Traditional Businesses	Franchised Businesses
Centralized control over finances operations, employment, facilities, etc.	Decentralized control over finances operations, employment, facilities, etc
Common ownership of company, affiliates, divisions, etc.	Divided ownership via contractual arrangements between franchisors and up to thousands of independent franchisee owners.
Perpetual articles of incorporation.	Termed franchise agreements updated annually, often resulting in franchisees being legally disclosed under different agreement versions with staggered term ending dates.
All revenues flow into corporate coffers.	Network revenues divided between franchisees and franchisors primarily through structured royalties.
Corporation ultimately responsible for all staff and infrastructure of all affiliates, divisions and units.	Franchisor responsibility primarily limited to corporate staff and infrastructure, franchise systems and agreements, brand promotion and perpetuation of the network. Franchisees responsible for up to thousands of franchise units, up to tens of thousands of employees and as many or more clients.

All businesses possess a unique culture. Franchising however, is the only business model wherein up to thousands of Presidents and CEO's can exist under a common brand name. Franchise cultures are thus distinguished from their independent business counterparts. To say franchise cultures are lively is an understatement. Ask anyone involved in franchising about the culture and you are likely to get an ear full.

Franchise cultures can take on a life of their own over time, and may evolve positively as well as in ways that are unplanned, undesirable, and unintended by franchisor leaders and franchisees. Leaders who have struggled to understand and fundamentally change their franchise culture are likely familiar with the comparison drawn to "herding cats", an unflattering expression no doubt derived from the independent nature of felines. The reference appears more apropos than derogatory however, when considering the number of owners, their geographic separation, and their sizable financial investments backed by personal guarantees and often personal collateral including homes and marketable securities, as well as their valid yet differing points of view.

Franchise leaders assume credit for success in good times and are assigned blame when troubles arise. Perceptions abound that franchise cultures can be magically transformed by replacing leadership, and it is a rare occurrence when the popular press sights cultural influences over leadership as contributing to a franchise company's success or failure. Franchise stakeholders prefer to target leaders rather than cultural issues, especially when they perceive their personal livelihoods and net worth to be at stake. People in general tend to promote themselves as the most important part of any organization, and with so many owners in franchising, self promotion is pervasive. People prefer to be in control too, and are usually more comfortable dealing with people issues than with abstract concepts such as cultures, which can appear complex and thus more difficult to comprehend and control. Despite such perceptions and preferences, effecting positive and sustainable change throughout franchise organizations and their cultures may begin with leadership, but does not end there.

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It is often said that change is the only constant in franchising. Experienced franchise leaders recognize that quick fixes are rarely appropriate for achieving lasting change. Best practices suggest a methodical approach to understanding franchise cultures and positively influencing change. Successful programs of cultural assessment and change management should ideally be institutionalized by the franchisor to enable successive regimes of leadership to optimize the culture as it evolves. The challenge and the opportunity for franchise leadership is first to understand the culture and its key elements, and the influence culture can exert on individuals and organizations. Then, as time and resources permit, transfer that understanding to the franchise network and empower stakeholders to collaboratively assist with changing the culture.

Involvement within franchise networks should be energizing, not draining. The opportunity to build a successful business and the promise of camaraderie that originally attracted you may fluctuate over time; however it should never disappear completely. If the spark is missing from your franchise experience, or if someone or something appears to be frustrating your efforts, resist the temptation to cast blame on leadership and look closely at your franchise culture for answers that may help you achieve the success you desire.

Franchise Culture Improvement Process Guidelines:

1. Assemble a team composed of knowledgable and committed franchisor leaders, franchisee advisory council members, and as necessary, additional subject matter experts.
2. Establish mutually agreeable ground rules among the team members in writing, e.g. maintain adequate capitalization, stay responsive to local markets, take initiative to act responsibly yet react independently to one another, work cooperatively to expand both the brand and the franchise network, etc.
3. Hold regularly scheduled meetings in person and/or by teleconference to collaboratively:
   a) *Develop a concise written definition of the then current franchise culture.
   b) **Discuss the key elements best representing the franchise culture starting with the list included in this article. Rely on known facts and the intuition of a sufficiently diverse team of knowledgable and committed stakeholders to identify only as many key elements as the team can reasonably assimilate.
   c) Identify desired changes and outcomes, and their anticipated impact on the culture and its key elements.
   d) Evaluate investments of effort, time and costs necessary to add, modify or eliminate key elements.
      e.g. (**E**asy / **D**ifficult) (**S**hort term / **L**ong term) (**$** / **$$** / **$$$**)
   e) Force rank desired cultural changes according to anticipated return on investment. (**L**east / **G**reatest)

4) Document the team's findings and regularly share an edited synopsis with the entire franchise network.
5) Persevere to achieve and maintain network wide consensus and to facilitate desired outcomes.
6) Repeat the process of understanding and redefining the evolving culture and its key elements on a periodic basis, institutionalizing the process and turning it into a key element of your franchise culture.

***Sample Franchise Culture Definition:** The sum of, and interrelation between, key elements of the franchisor and its franchisee network, which differentiate them from all other franchised and traditional businesses, and which tend to perpetuate through time and through successive generations of franchisor and franchisee ownership and staff in the absence of change resulting from internal and/or external influences

****Reference:** The game of chess is composed of just 64 squares and 32 pieces with well defined movements, yet the number of permissible moves borders on infinite. Franchise organizations are composed of many more key elements, frequently with ill defined parameters, which can be affected by a limitless number of influences. It is counterproductive to add more key elements than the team can reasonable assimilate. The list of key elements accompanying this article are presented solely for the purpose of stimulating the teams' thoughts.

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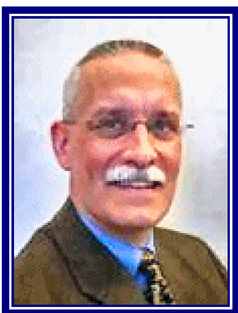
Case Study: A successful franchisor built up two separate divisions in slightly different industries. The younger and smaller of the two divisions was sold off to an international competitor when funding franchisee growth became challenging. The sale resulted in the complete loss of the original knowledge base encompassing an entire industry segment, radically altering the company's culture back to business model it was originally founded upon. Less than 10 years later the company's franchise network experienced significant and protracted sales declines, culminating in disputes and unit closings. Franchise leadership's initial reaction was to aggressively drive sales and marketing. Despite best efforts, sales continued to plummet and units closed. After years of decline, franchise leaders eventually realized that a significant shift in the industry/market segment had resulted in the traditional client base switching over to the types of products and services offered under the company's prior division, which had been sold off. The solution was to develop and launch an entirely new franchise offering and rebuild the failing network from scratch. Franchises were sold primarily to new franchisees, and a few preexisting franchisees willing to learn the new business. The new offering exhausted all franchisor financial resources and required five years to yield material results.

In this case, the franchisor's initial course correction failed to turn the franchise network around. It was not until the root cause of the problem was determined that effective solutions could be devised and implemented. Even then, considerable debate waged on for many years between the franchisor, and franchisees who wanted to believe the downturn was temporary rather than a permanent market shift. In addition, the surviving franchisees perceived the new business to be less professional, and objected to the franchisor investing all of its capital and resources into the new offering and none into the historic business that had paid in royalties for decades.

With the clarity of 20/20 hindsight, a formalized cultural assessment program may have helped leadership to better understand and persevere through the original funding issue, or detect the client/industry shift years earlier, permitting the company to adapt in a timely and cost effective manner, in the normal course of business.

About the Author:

Bob Snelling is president and founder of Honor Capital Group, LLC a small business consultancy and finance intermediary, and the author of Tip Top Docs brand of professional business documents.



Bob's diverse business experience spans multiple industries dealing with products, services and people. Serving as an employee in various positions from warehouse to boardroom Bob has directly reported to no less than five extraordinarily different company presidents. As a business owner making decisions, setting budgets, and meeting payrolls for up to thousands of employees, Bob has known first hand what it is to maintain legal, operational and P & L responsibility. Performing in the roles of senior level executive, CEO, board director and major shareholder of Snelling and Snelling, Inc., a national, and for many years international company with hundreds of franchised and corporate units, Bob has by necessity perfected leadership skills that are tolerant and respectful of widely divergent perspectives.

A unique background with progressive levels of operational, managerial and financial responsibility has proved invaluable preparation for Bob's current role as business advisor and finance intermediary. Guided by ethical behavior, attention to detail, and a regimen of planning, collaboration and teamwork, Bob's innovative yet practical solutions consistently deliver return on investment and stand the test of time. Decades invested in the identification and implementation of sustainable best practices uniquely qualifies Bob to author relevant topics that today's franchised and independent business leaders can immediately benefit from and put into action.

Bob currently resides in Plano, Texas a suburb of Dallas with his wife and business partner Carol, their two children and a Border terrier.
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Sample list of key elements that influence franchise cultures:

1. Advertising/marketing fund
2. Agreements and contracts
3. Area developers
4. Brand image, loyalty, reputation
5. Brand name(s)
6. Business model(s)
7. Bylaws (franchisee council)
8. Bylaws (franchisor)
9. Client B2B, Retail, other
10. Client sizes and turnover
11. Community involvement
12. Competition (direct & indirect)
13. Culture assessment process
14. Dispute resolution
15. Earnings claims
16. Economic influences
17. Employee benefits
18. Employee compensation
19. Employee count
20. Employee productivity
21. Employee qualifications
22. Employee skills
23. Employee tenure
24. Employee turnover
25. Experience (collective)
26. Facilities costs, design, etc.
27. Franchise Agreement
28. Franchise Agreement renewal
29. Franchise Agreement term
30. Franchise associations
31. Franchise brokers
32. Franchise Disclosure Document
33. Franchise fees and costs
34. Franchise new sales counts
35. Franchise re-sale and re-sale counts
36. Franchise total unit counts
37. Franchisee audits
38. Franchisee average time in business
39. Franchisee average time to breakeven
40. Franchisee business planning
41. Franchisee debt service
42. Franchisee financial proformas
43. Franchisee infrastructure
44. Franchisee initial investment
45. Franchisee involvement
46. Franchisee obligations
47. Franchisee qualifications
48. Franchisee relations
49. Franchisee reporting
50. Franchisee termination triggers
51. Franchisee turnover
52. Franchisor capital reserves
53. Franchisor communications
54. Franchisor core competencies
55. Franchisor corporate structure
56. Franchisor debt service
57. Franchisor departments
58. Franchisor ethics
59. Franchisor field support
60. Franchisor financials
61. Franchisor infrastructure
62. Franchisor leadership
63. Franchisor net worth
64. Franchisor obligations
65. Franchisor owned unit count
66. Franchisor ownership structure
67. Franchisor public vs. private
68. Franchisor research and development
69. Franchisor shareholders
70. Franchisor time in business
71. Furniture, fixtures and equipment
72. Geographic distribution
73. Government regulation
74. Gross margin
75. Gross sales revenues
76. Hours of operation
77. Independent Franchisee Association
78. Industry business cycles
79. Industry growth or decline
80. Industry segment(s), sizes and trends
81. Industry trade associations
82. Insurances
83. Intellectual property
84. Internet sales
85. Inventory
86. Inventory turns
87. Languages spoken
88. Law firms used
89. Legal compliance
90. Legislation (current and pending)
91. Licensing requirements
92. Litigation (current and historical)
93. Location demographics
94. Market area(s)
95. Market share: (local, national, intl.)
96. Marketing plan
97. Master franchisees
98. Multi unit operators
99. National accounts
100. National vs. international distribution
101. Operations manuals/materials
102. Patents and intellectual property
103. Point of sale or computer system
104. Policies and Procedures
105. Pricing
106. Product life cycle
107. Production capacity
108. Products and Services
109. Profitability
110. Protected sales territory
111. Protected unit territory
112. Quality control
113. Real estate owned/leased by Franchisee
114. Real estate owned/leased by Franchisor
115. Recession resistance
116. Risks (internal & external)
117. Role in society
118. Royalty calculation method
119. Royalty rates & payment frequency
120. Royalty rebate programs
121. Sales/performance awards program
122. SBA loan performance
123. Seasonality/peak production
124. Sight selection criteria
125. Single unit operators
126. Single vs. multi unit operators
127. Specialization
128. Strengths, weaknesses, opportunities, threats
129. Succession plans
130. Suppliers
131. Taxes
132. Technology
133. Terminologies
134. Theft in all its forms
135. Trade dress
136. Trademarks
137. Training manuals/materials
138. Training pre & post opening & ongoing
139. Warranties
140. Web site(s)

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