

## Franchising **e**xcellence

The Roland Berger approach

## Marketing & Sales Competence Center

July, 2009

## Franchise systems attract growing interest and gain importance – Roland Berger Strategy Consultants know how to succeed

- Franchise systems **become more frequent**, in Germany the number of franchise subsidiaries grew by 14% and their sales by 28% from 2005 to 2007
- Advantages like reduced costs and risk, decreased capital requirements and enhanced entrepreneurship accelerate **speed of expansion** and improve **financial KPIs** of companies
- But it is not that easy: A strong brand, clear added value, high barriers to entry, a sustainable and unique business model as well as ease of control are vital to yield a **mutual win-win** sharing of economics and risks
- To successfully implement a franchise system, clear and fair rules, constant advice and training as well as detailed controlling from the franchisor's side and entrepreneurial spirit, compliance and commitment from the franchisee's side are required
- **Roland Berger Strategy Consultants** has the **knowledge** to set up such an efficient and effective franchise system platform to support a close partnership between franchisors and franchisees, **maximizing the value** of the company while **avoiding possible pitfalls**

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## **A. Fundamentals and key success factors**

# As proven in a lot of industries, franchise systems can be a financially advantageous way of running the business

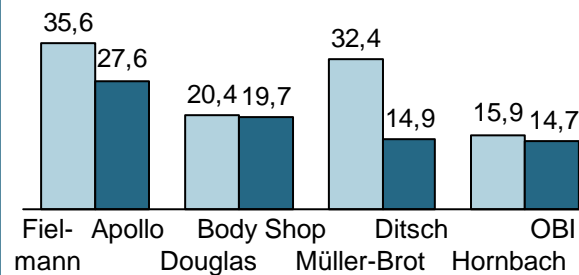
Comparison of key financials of franchise companies and competitors

## ADVANTAGES

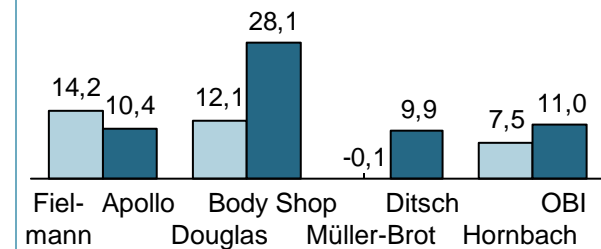
- Entrepreneurial spirit drives **productivity and sales growth**
- EBIT margin increases due to **decreased operating expenses**
- Decreased personnel costs and reduced risks
- Higher ROCE due to reduced investment needs **drive expansion**

## KEY FINANCIALS - SELECTED COMPANIES, 2005-2007<sup>1)</sup> [%]

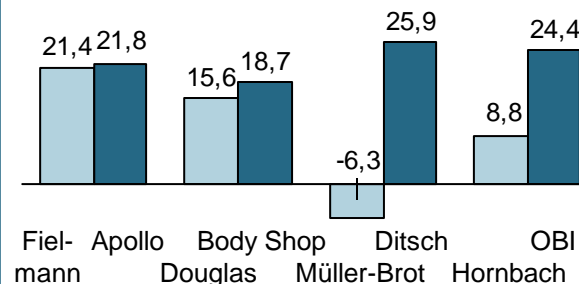
Employee costs / revenues



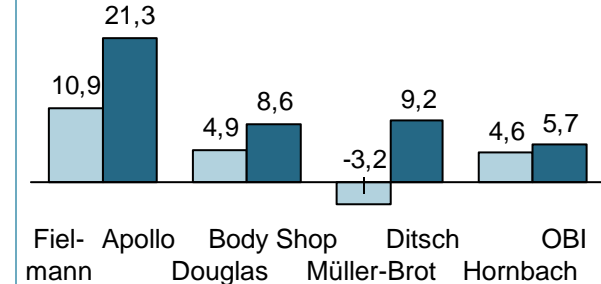
Sales growth



ROCE



EBIT margin



Franchise company

Comparable company

1) Years of observation consistent within industries

# Franchise systems aim to produce benefits for both sides through vertical partnerships

## Franchising fundamentals

### DEFINITION

"Franchising – according to our common understanding – is a genuine **partnership** with **mutual obligations**. It is a **win-win situation** created by jointly sharing the financial involvement and risk."

### KEY SUCCESS FACTORS

- 1 Strong brand**
  - Existing brand
  - Brand enjoys high awareness and appeal
- 2 Sustainable & unique business model**
  - Standardized, tried-and-tested business model
  - Proven system landscape (marketing to training)
- 3 High barriers to entry**
  - Business model that cannot be directly copied
  - Target-group-focused
- 4 Ease of control**
  - Well documented business model
  - Clear processes and control mechanisms
- 5 Expansion and portfolio management**
  - Location and franchisee selection
  - Support and ramp-up training

**Success of  
franchise  
system**

# The mutual partnership of a franchisor and a franchisee has its advantages and disadvantages

Challenges to overcome

## ADVANTAGES

- Reduced personnel costs
- Reduced expansion risks
- Decreased capital requirements
- Enhanced entrepreneurial spirit of shop managers and higher productivity
- Increased closeness to market

## DISADVANTAGES

- Obligation to share profits
- Conflict management necessary
- High necessity of constant control

## CHALLENGES

- Risk of **brand dilution** (trust, image, quality, freeriding)
- **Recruitment** of partners with best fit
- Full utilization and leverage of potential
- **High demands** on system organization and HQs
- Balance of reduced costs and reduced margins due to profit sharing

# Successful franchise systems offer high professional support in applying a proven standardized concept with clear guidelines

## Features of successful franchise systems

### Clear and fair rules

- Clear **definition** of **services** and **requirements**
- Appropriate franchise fees
- Absolute **openness** before signing contract
- Professional **documentation** (manual)
- Member of **professional franchise associations**
- Clear rules and professionalism in **recruiting franchisees**

### Proven success of the concept

- Positive financial situation and adequate **resources**
- Positive **image** / good reputation
- Existence of current and future **market opportunities**
- Transferability through standardized processes

## Features of successful franchise systems

### Differentiation

- **Brand name** (protected)
- **Attractiveness** compared to direct competition
- **Uniqueness** of product/service or marketing with potential

### Efficient system HQ

- Continuous **information and knowledge sharing**
- Active **support** (refining the systems, marketing, controlling, etc.)
- Continuous **expansion and training** of franchisees
- **Quality standards** and controlling
- Continuous **improvement process**
- Professional, competent **management**

## The basis for successfully leveraging the business idea are clear responsibilities between the contracting parties

Responsibilities in the franchise system

### FRANCHISOR

- Offer **proven business idea**, know-how
- **Market the concept**
- Recruit capable franchisees
- Help in finding and selecting a site
- **Provide advice** for financing questions
- **Provide training**
- Implement favorable purchasing terms / direct delivery
- Provide continuous on-site support
- Further develop business concept and products

Successful  
leveraging

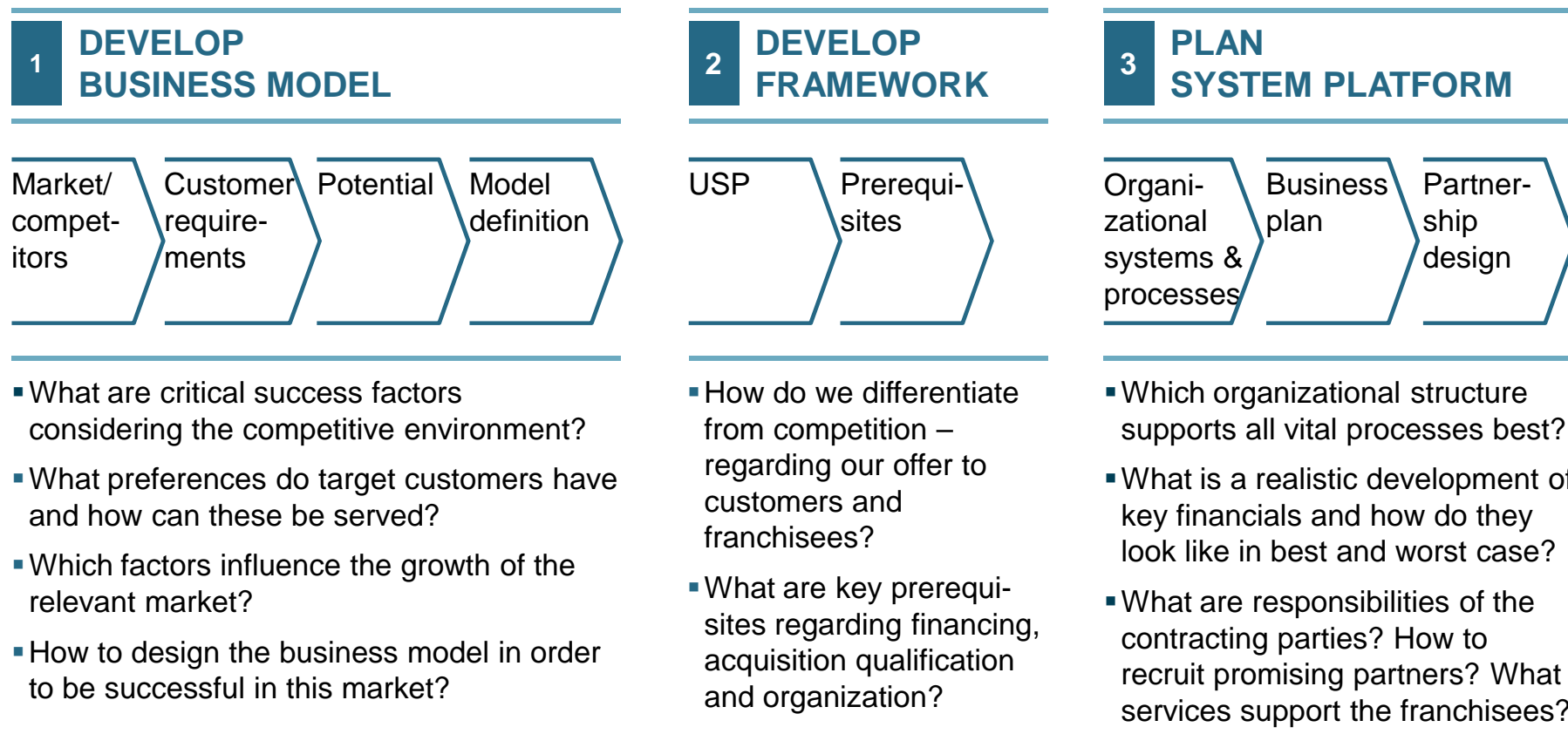
### FRANCHISEE

- Demonstrate **entrepreneurial spirit** and motivation
- Find and manage staff
- Comply with the system principles and guidelines
- Conduct **local advertising**
- Participate in training courses
- Work together with the franchise advisor
- Promote and **protect the brand**
- Shows financial commitment (franchise fee and possibly contribution to investments)
- Provide franchisor with business **information**

## **B. The Roland Berger approach to set up a franchise system**

# A franchising system platform is designed based on the underlying business model and franchise concept requirements

Roland Berger approach to set up a franchise system



# Customer requirements and needs must be recognized to develop a successful business concept

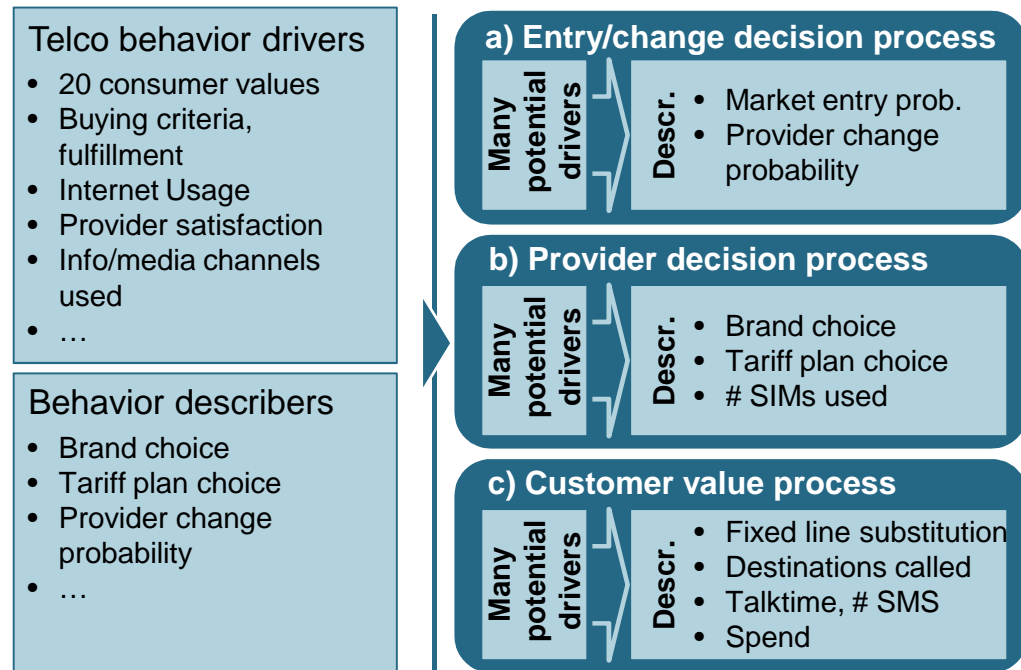
Key questions on customer requirements

## Key questions

- What are the **key decision drivers** in the industry?
- What **service offering** is expected by the different customers?
- How high is the **willingness to pay** for the service offered?
- What are the potential **order volumes** for private and business customers?
- What is the **image** of the franchisor in the relevant customer group?

## Example –

Identification of drivers purchase decision



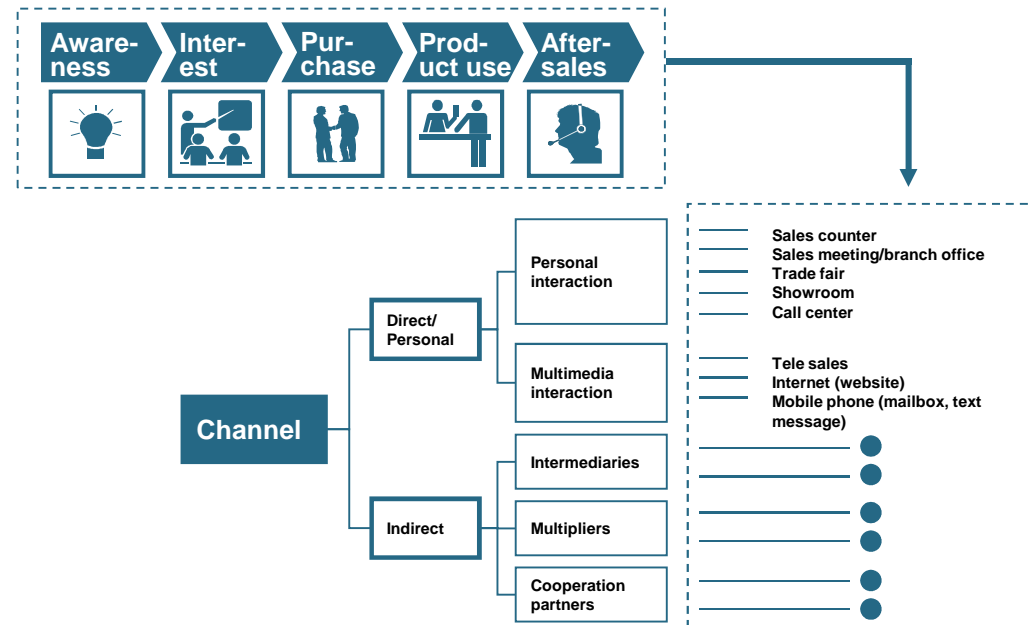
# Different concepts can be used to help develop the franchise framework, but strong differentiation is crucial

Key questions on unique selling proposition

## Key questions

- What are the **key strengths and weaknesses** of successful franchise concepts for similar services?
- What are our **core competencies**?
- Which of these **concept** can be **leveraged** and applied to the new concept?
- What are the **benefits** for the franchisor and the franchisees **from using the license**?

## Example – USP "Customer Touchpoint Innovation"



# Franchisee support by the headquarters is a crucial part of the system platform for developing the franchise concept

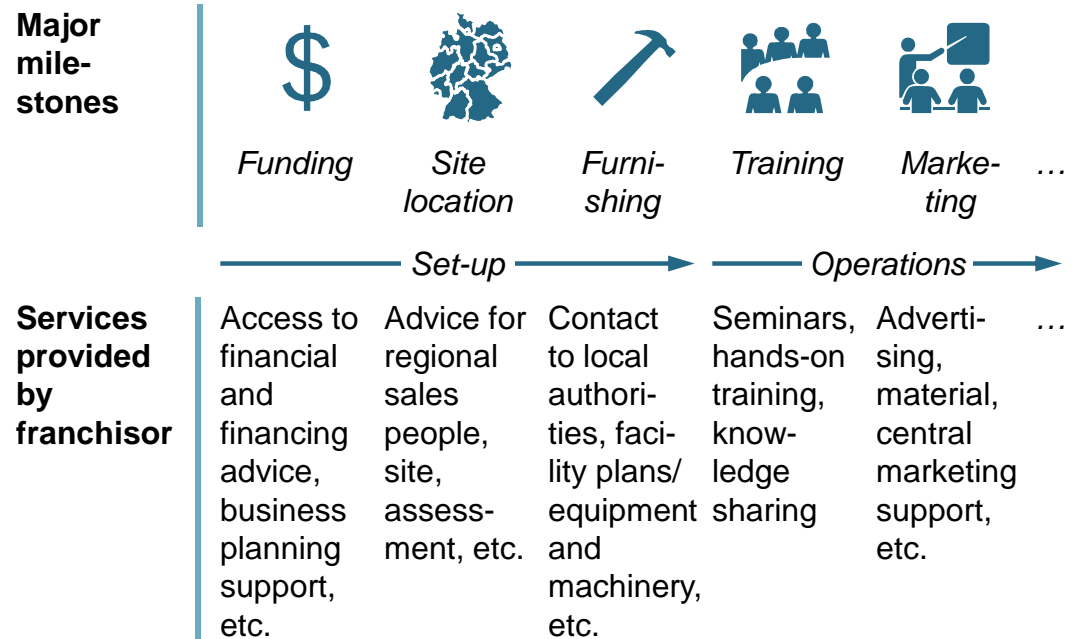
Key questions on partnership design

## Key questions

- How to **identify and recruit** the most promising franchisees?
- In which areas should HQ **support** the franchisees and how often should **training** be conducted?
- How can mutual **knowledge sharing** be organized and guaranteed?
- Which contracting parties have which **responsibilities** (e.g. in Marketing, Controlling, Purchasing, etc.)

## Example –

Support services as main reason to become a franchisee



## **C. Modules and activity plan overview**

## We recommend to implement the project in four consecutive phases

	1 BUSINESS MODEL & STRATEGY	2 FRAMEWORK BUILDING	3 BUSINESS PLAN & SYSTEM PLATFORM	4 PILOT, EVALUATION & ADJUSTMENTS	5 IMPLEMENTATION SUPPORT
<b>Aims</b>	<ul style="list-style-type: none"> <li>Define business structure and target position</li> </ul>	<ul style="list-style-type: none"> <li>Specify USP, organizational structures, policies &amp; procedures</li> </ul>	<ul style="list-style-type: none"> <li>Develop process infrastructure and partnership design</li> </ul>	<ul style="list-style-type: none"> <li>Test the concept in practice and work in lessons learnt</li> </ul>	<ul style="list-style-type: none"> <li>Put franchise system smoothly and quickly into operation</li> </ul>
<b>Methods</b>	<ul style="list-style-type: none"> <li>Interviews and workshops</li> <li>Forecasts, market &amp; customer surveys</li> <li>Analysis of international best practice</li> </ul>	<ul style="list-style-type: none"> <li>Interviews and workshops</li> <li>USP &amp; organizational prerequisites</li> </ul>	<ul style="list-style-type: none"> <li>Business planning and scenario analysis</li> <li>System and process planning</li> <li>Analysis of interfaces</li> </ul>	<ul style="list-style-type: none"> <li>Pilot of the concept in selected locations</li> <li>KPI system</li> <li>Measurement tools</li> </ul>	<ul style="list-style-type: none"> <li>Planning</li> <li>Monitoring</li> <li>Assistance</li> </ul>
<b>Deliverables</b>	<ul style="list-style-type: none"> <li>Market potential &amp; strategic options</li> <li>Customer requirements &amp; segmentation</li> <li>Business model</li> <li>Roadmap</li> </ul>	<ul style="list-style-type: none"> <li>Definition of USP</li> <li>Required strategic and operational functions</li> <li>Policies &amp; procedure manuals</li> </ul>	<ul style="list-style-type: none"> <li>Business plan &amp; scenarios</li> <li>Key processes</li> <li>Infrastructure requirements</li> <li>Implementation roadmap</li> </ul>	<ul style="list-style-type: none"> <li>Assistance on                             <ul style="list-style-type: none"> <li>Evaluation of concept success</li> <li>Development of recommendations to adjust concept</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Assistance on                             <ul style="list-style-type: none"> <li>Initial launch strategy</li> <li>Partner recruitment</li> <li>Others as required</li> </ul> </li> </ul>
<b>Time</b>	Duration: 6-8 weeks	Duration: 4-8 weeks	Duration: 4 weeks	As required	As required

## For further information, please contact your expert team



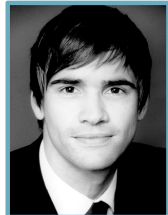
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