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Experts warn: Beware of trendy retail concepts

Strong franchise system, support still key to return

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Special Report: Retail Franchising

The franchising industry has exploded in the last couple of years with a surplus of new brands, causing competition to increase while "sure-fire-success" concepts seem to be around every corner. Nowhere is this truer than in the retail franchising segment — and both franchisors and franchisees are carrying the weight to find the ideal matchup that will lead to success.

Jeff Johnson, founder and chief executive officer of the Franchise Research Institute, a research company that examines franchise brands and rates them based on a confidential survey with franchisees, dubbed FranSurvey, voiced some concern over the growing number of "get rich quick" retail concepts.

Johnson, whose Lincoln, Neb.-based company has rated a number of new brands including Great Clips, Signs by Tomorrow, Taco Del Mar, Mr. Handyman, Z Pizza, Maid Brigade, DreamMaker Bath and Kitchen by Worldwide and Great Harvest Bread, said that retail concepts often require smaller investments so they draw on "less sophisticated investors" and many will jump at them without doing the proper due diligence that any investment deserves. He added that overlooking the investment factor, for concepts that "look cool" or are trendy is the biggest problem in this scenario.



The Thousand Palms, Calif.-based Screenmobile, a provider of screens for windows, doors and other household uses, has switched service strategies since it started in 1984, working hard to bring all franchisees on board with the changes. Photo courtesy of Screenmobile

Johnson used the example of numerous concepts launched in the haircutting segment as emblematic of this. "There are just so many that flame out fast," he said. "There are a lot of me-too's that go into that category."

The real problem is not the concept behind these new franchise brands, he explains — it is that they are backed by poor franchisors. "They scare me the most because they just don't make it," Johnson said. "They don't have a great franchise company behind the concept.

"You are just buying a job," he added.

A former Schlotzky's deli owner and area developer, Johnson started his FranSurvey business in 2004 with the main goal of breaking through the franchise marketing rhetoric and clutter and quantifiably determining what brands are successful and how others can follow suit. To rate a brand, his company will survey approximately 80 percent of a chain's franchisees.

As is the case with most franchise segments, what comes out on top for franchisee satisfaction in the retail sector is the guidance and support that a franchisor provides, according to Johnson. This includes both initial training programs and on-going franchisee training.



Dick Rennick

"The cream of the crop is those that are able to disseminate those programs and services exceptionally well — those are successful," he said.

Franchisees also report the most confidence in a brand when they believe that the franchisor understands how to make the concept successful and is constantly working toward this goal.



Walker

"At the end of the day, franchising is a complicated business ... so you want somebody ethical at the top," Johnson said.

"The rest is just hot air and spin and hype and sales — it makes no difference," he added.

Concern about ethical issues and poor franchisor support are the main symptoms that point to a failing concept, according to Johnson. He said his company's surveys have found that franchisees of failed brands most often report that their concerns really started to rise when the franchisor failed to return phone calls or e-mails.

"It's at this point that the system cracks and the wheels start to come off," Johnson added. "This is when the franchisees say, 'I don't believe in the franchisor anymore — I don't trust them.'"

Like Johnson, Richard Rennick, founder of the 360-unit franchise chain American Leak Detection, founder and president of consulting firm TEAM Rennick and former chairman of the International Franchise Association, is also concerned about investors jumping into the franchise fold and making decisions based on marketing hype and "fastest-growing" labels.

He pointed out that most often "hands-off" investors, or those that do not want to be involved in the day-to-day operations of a franchise, are the ones fooled — and the retail franchising sector is perhaps the most attractive for these kinds of investors.



Jeff Johnson

The reason being that with other segments, such as food and restaurants, franchisees typically want to have a hand in the business and will hence pick a concept they are interested in and often have experience with, Rennick explained. The retail sector, by the nature of the service offerings and many copy-cat-type concepts, will often get the investor who just looks at the numbers and with this thinking the "fastest growing" and marketing hype catches their eye.

Rennick said franchisee investors need to go beyond just listening to the franchisor when it comes to choosing a concept. They need to talk to franchisees, visit stores and look at the competition. The increasing number of new franchise concepts — approximately 1,800 in the last 30 months, according to Rennick — make this approach a necessity to ensure a good investment.

"There are a myriad of franchise companies out there that started from zero. There are also a lot of franchise concepts that started from zero, sold one or two or three stores and then failed," he said.

In the retail segment, Rennick does not immediately rule out investing in copy-cat-type concepts because he said there may be a difference in how the service is provided that will succeed, particularly if a new brand has found a more efficient way to offer a service. "I don't care what is the replication, there is a reason for it," he said.

Succeeding with new brands can often just be a matter of looking for the distinguishing factors and having confidence that they will make the concept successful, Rennick added.

Rennick also believes in success through franchising by truly buying into the team concept that the industry provides. Though franchising attracts entrepreneurs, the success is in the system and franchisees must be willing to accept that and not vary too far out of the boundaries that has made a particular brand successful, he added.

"You are not in business by yourself. You've got someone there with you, which is very relevant in the franchise community," Rennick said.

From the franchisor side in the retail segment, Screenmobile has fueled its success through a constant push to keep all franchises in complete agreement with the chain's overall strategy.

The Thousand Palms, Calif.-based chain started franchising in 1984 and today has close to 90 locations in just over 20 states. Screenmobile provides screen installation and replacement services and boasts same-day service with a fleet of trucks that come straight to customers' homes.

Products include window screens, door screens, porch screens, patio screens and pool screens.

Screenmobile, president and chief executive officer Scott Walker explained that the chain evolved over the years from a focus on quality products and convenient service to include a more "customer-centric" approach.

"Everything is always based on the customer first," said Walker. "Our strategic goal is to get and retain very loyal and satisfied customers who use us often and refer us to others."

To keep the franchisees focused on this "customer-centric" approach Screenmobile put an emphasis on regional meetings for franchisees and a continual rehashing of the message.

"[A customer-centric approach] takes the dynamic away from 'me,'" Walker said. "Franchisees sometimes focus on themselves. We are asking them to step back and look at the customer — to see what the customer is seeing."

He said the more Screenmobile can deliver this message to its franchisees the better. "We provide continual programming because they don't always hear it every time," he added.

Screenmobile also shifted the concept of a franchisee support department to that of a franchisee performance improvement center. "We ask them, 'Where do you need to improve? What do we need to advise you or coach you on to get to that?'" Walker said.

Just as Johnson and Rennick advise franchisees to find the right fit for choosing a franchise brand, Screenmobile looks for the right kind of franchisees the company believes will be successful.

"You need to align your potential candidates with your system — and align them correctly so they completely understand and you completely understand and you are working in the right direction," said Walker.

"Our retail system is a little bit different because not everyone fits into the box," he added. "We try to find people that do."