



# the franchise model

some assembly required

**Branding. Attention to individual operators. Technology. Franchisors assemble all the right attributes to set their franchisees apart.**

BY CHRISTOPHER WARREN

Barbara Troncoso, a JACKSON HEWITT TAX SERVICE INC. (JTX) franchisee with numerous tax-preparation outlets throughout New Orleans, admits to feeling overwhelmed after Hurricane Katrina swept through her city. “My main location was in eastern New Orleans, which was one of the hardest hit areas,” recalls Troncoso. “We had about five feet of standing water for 30 to 45 days. We lost everything.”

Troncoso says the response by Jackson Hewitt management was fast and extraordinarily helpful. First, she says, the company helped her acquire franchising rights for nine new locations in northern Louisiana and eastern Texas — places relatively unaffected by Katrina — for a minimal financial outlay. Also, she says, the franchisor

deferred payments she owed and assisted her in purchasing the equipment she needed to start operating again in New Orleans. “Their entire management team even flew down here to meet with all of us [franchisees] to see what they could do,” says Troncoso, who indicates she is gradually building her businesses back to pre-Katrina levels. “I could never have done it without them.”

Such intense focus on the needs of franchisees is one of several important ingredients that contribute to the success of franchisors, points out Stephen P. Holmes, chairman, president and CEO of hospitality company WYNDHAM WORLDWIDE CORP. (WYN). “We make no mistake about it,” says Holmes. “If our franchisees do better, then we do better.” For Wyndham Worldwide, he adds,

that means treating franchisees as customers, which requires constant communication, including an extensive field staff that is well trained in how to operate a hotel.

The success of the franchise is in large part due to the comfort level the business model provides consumers, says Udo Schlenrich, director of the University of New Hampshire's William Rosenberg International Center of Franchising. "There are no surprises," he says. "You come to a franchise and know what the product is and how much it will cost." Schlenrich adds that franchising particularly appeals to entrepreneurs, because much of the groundwork in setting up systems and testing products is done by the franchisor. He notes that banks tend to look more favorably on financing a franchise than an independent business. They know, he says, that using the tried-and-true franchising model means "a 60 percent to 70 percent lower failure rate" than individual operators.

Although restaurants may be perceived as the most prolific franchise segment (see Sector Spotlight, page 37), myriad other businesses lend themselves to franchising, including tax preparation, real estate brokerage and the hospitality field. Indeed, according to the International Franchise Association (IFA), more than 75 industry groups use franchising to distribute their products and services. Businesses that lend themselves best are those — such as quick-service restaurants or hotels — where it's relatively easy to teach a uniform system for delivering a product or service, says Schlenrich.

These industries, adds Holmes, have enjoyed acceptance overseas for the same reason that they have been successful in the U.S.: Travelers like knowing that a brand they trust stands behind their experience, he says. Holmes adds that he expects that trend to continue, given the popularity of international travel. "Markets that were very much mom-and-pop independent markets, such as those in many parts of Europe or Asia, are now leaning toward the use of well-established brands," he says.

Indeed, "in franchising, brand is almost everything," notes Richard A. Smith, vice chairman and president of real estate services company REALOGY CORP. (H), whose brands include Century 21, Coldwell Banker, ERA and Sotheby's International Realty.



Smith points out that creating a strong local business is difficult and, ultimately, quite limiting. "You can build Richard Smith's real estate brokerage, but it will take many, many years to truly impact the local market." Even then, he says, in America's "very mobile society, you won't get the benefit of people moving into your community because they won't know your brand from Adam's."

Franchisors say that they look for intensely entrepreneurial, competitive businesspeople to captain their franchises. Their screening process takes into account business experience and financing.

Once they have the right franchise partners, says Michael Lister, chairman, president and CEO of Jackson Hewitt, it's part of the franchisor's job to ensure that its franchisees stand behind the brand. "Equally important is that the franchisor stands behind its franchisees."

Regardless of the industry segment, say franchisors, technology is a key component of successful franchising today. They say that developing technology, then providing training to use it effectively, is not something that franchisees typically can afford, making it a responsibility of headquarters.

For example, close to 80 percent of all home searches today begin on the Internet, compared with almost none in 1998, Smith points out. That is why "we field-test new technology and stress-test it to make sure it works and

accomplishes the intended outcome," he says. "Once we put technology in the marketplace, our franchisees can trust that it's been through the war and it works."

Smith, who has been involved in franchising for more than two decades as CEO of Cendant's real estate division and in a variety of positions at Days Inn of America (a former Cendant franchise system that is now part of Wyndham Worldwide), says today's single biggest trend is increased competition among franchisors. This focus, he says, has forced franchisors to be more innovative and to continually improve their operations. "If your value proposition hasn't changed and you haven't stayed current — say you're not investing in the infrastructure and substance of your franchise — then you lose."

SOURCE: INTERNATIONAL FRANCHISE ASSOCIATION

## what makes a business franchise-friendly?

- DEMAND:** Is there a need for its goods or services today and in the future?
- MODEL:** Can the business be easily replicated?
- DESIRABILITY:** Is it attractive to prospective franchisees?
- COMPETITION:** Is there room for the concept in the marketplace?
- GROWTH:** Can the franchise build business at a sustained pace?
- OPERATIONS:** Does management have the skill to handle a franchise system?

# jackson hewitt tax service

Total 2006 revenues \$275.3 million Number of company-owned offices 643 Number of franchised offices 5,379



The way **MICHAEL LISTER** sees it, few businesses are as well suited to the franchising model as tax preparation. According to Lister, who is chairman, president and CEO of **JACKSON HEWITT TAX SERVICE INC.** (JTX), more than 130 million U.S. tax returns were filed in 2005, and he expects between 1 million and 2 million more to be filed in 2006, with growth continuing into the future. "That gives you an audience to compete for," he says.

Lister says Jackson Hewitt franchisees can get into business with relatively little up-front capital — \$35,000 to \$91,800 (including an initial franchisee fee of up to \$25,000), depending upon the territory size and whether the business is a standard office or a kiosk in its first year. But what makes a Jackson Hewitt franchise particularly worthwhile, he says, is the fact that being a part of a strong brand helps franchise owners to compete in a highly fragmented market, with more than 100,000 practitioners.

But the important ingredient involves having the Jackson Hewitt brand really stand for something, adds Lister, who says the company aims to be known for superior customer service and the very best technology. "Consumers anywhere want to have access to a well-known brand and all it offers, no matter which office they visit."

The CEO understands that customers need to see these attributes in interactions with the individual Jackson Hewitt franchise. "The service promises that we market," he says, "are delivered by our franchisees on the ground." Because it's the individual operators who must deliver,

ALL PORTRAITS COURTESY RESPECTIVE COMPANIES

**"we provide the tools, the direction, the products, services and support. but it's the franchisee that helps the business soar."**

— Michael Lister, chairman, president and CEO, Jackson Hewitt Tax Service

Lister says, they are involved in everything — from developing products to devising best practices. "We continue to upgrade our technology and evolve our marketing around the insight that they provide," he says.

Although Lister says that communication between Jackson Hewitt and its franchisees is vital, so too is encouraging interaction between operators. Barbara Troncoso, who owns Jackson Hewitt offices in Louisiana and Texas, points to a companywide Intranet as a valuable resource for learning new strategies and exchanging ideas. "There is always something useful from another franchisee," she says.

Connecting franchisees also helps ensure that each individual office maintains high standards, says Lister. Since reputation impacts everyone, "if someone hears of a franchisee who is not delivering, they let them know about it," he says. "They contribute to creating these standards and they call themselves on it."

Troncoso says working together for success has been an effective strategy. "As a group, you're going to have a much better chance of success than you ever would individually," she asserts. •



# realogy corporation

Total 2006 revenues \$7.1 billion Number of company-owned operations 1,100 Number of franchised offices About 14,000



**RICHARD A. SMITH**, vice chairman and president of **REALOGY CORP.** (H), says that his company hosts a major franchisee meeting nearly every day of the year. He says that Realogy — which includes real estate brokerage brands Century 21, Coldwell Banker, ERA and Sotheby's International Realty — emphasizes the importance of meeting face-to-face with franchisees to discuss current business trends as well as local operators' needs and wants. "We're in a relationship business, so we work hard to manage those relationships," insists Smith.

Beyond being the largest real estate brokerage franchisor in the country, Realogy reports it is also the largest owner-operator, through its subsidiary,

NRT Inc. “Our 1,100 company-owned offices give us a great laboratory to test what works,” Smith says. “That benefits franchisees because a lot of what we create comes out of the operating side of the business.”



Because executives are also operators, franchisees see them as having a realistic sense of opportunities and challenges, Smith notes. “They view us as living in the world they live in.” He adds that the franchisor also monitors the big picture. Because simply running their business can be overwhelming, individual operators “need a big brother to stay abreast of macro changes,” he says.

One trend that headquarters particularly monitors is technology, notes Smith. By making new systems available to franchisees, he says, Realogy enhances the value of the franchise. Smith points to its proprietary LeadRouter technology, built because many home searches now begin online. “A consumer goes to a Website and e-mails or text messages that he’d like to see a particular listing on Saturday morning at 9 a.m.,” Smith explains. “The LeadRouter technology immediately converts the e-mail inquiry into a voice message, which goes right to the cell phone of the agent, who gets back to the customer promptly.”

Realogy operates in 59 countries, but instead of selling individual franchises as it does in the U.S., Smith says, Realogy offers master franchises overseas. “We find someone in Paris with an appropriate balance sheet and operating experience. They buy the rights to most or all of France and act

**“if you have brand, you have just about everything, but you have to build substance behind it.”**

— Richard A. Smith, vice chairman and president, Realogy Corp.

as our surrogate,” he explains. Smith says this approach allows Realogy to partner with solid business people with knowledge of real estate markets in other countries. Smith also points out that its international presence is increasingly important to some domestic brokers. “The typical Sotheby’s customer who is selling a \$20 million Newport estate may believe that the prospective buyer is in Italy or Switzerland. If you don’t have connections to those markets, it becomes less attractive to that customer.”

## the ups store

Total 2006 revenues Not disclosed Number of company-owned stores 0 Number of franchised offices 5,763



When looking at the totality of The UPS Store’s operations, President **STUART MATHIS** says he’s pleased but also “constructively dissatisfied.” “We’re always looking for ways to improve programs, processes and the services we provide our customers, including the franchisees, who are our customers,” he says, noting that The UPS Store provides shipping, postal and business services to small businesses and consumers.

Although Mathis insists that a restless urge to improve operations underscores everything the company does, he also says The UPS Store’s history gives it a powerful advantage. Launched as Mail Boxes Etc. Inc. in 1980, the business literally created the industry, he points out. Mathis calls the 2001 acquisition of Mail Boxes Etc. by parent company **UPS** (UPS) a “watershed event,” noting: “We positioned the acquisition as ‘the perfect package’ because it represented the integration of two brands that are leaders in their industries.” He says that in 2003, Mail Boxes Etc. franchisees were given the opportunity to rebrand themselves as The UPS Store, something that about 90 percent of U.S. stores opted to do.

Still, Mathis says, strong brands are not sufficient in themselves. Also vital, he insists, is finding franchisees who “have that unique blend of entrepreneurial spirit and willingness to listen to guidance from the corporate side.” That’s the dichotomy of franchising, he says: “It attracts people who have a strong entrepreneurial spirit to a business that is based on strong standards and procedures needed to maintain uniformity.”

Mathis says The UPS Store strives to work collaboratively with its franchisees. For example, he explains that headquarters doesn’t so much monitor their business as use its support infrastructure to stand side by side

**“we encourage franchisees to focus on what happens within their own walls. we also want them to remember that they’re ambassadors of that brand.”** — Stuart Mathis, president, The UPS Store



with franchisees. One way to do that, he explains, is through assessment programs that help individual operators identify areas where they can improve. Mathis also indicates that The UPS Store avoids inundating franchisees with too much information. A weekly electronic newsletter, he says, limits content to information critical to daily operations; meatier initiatives and strategies are communicated at quarterly area franchisees meetings or at the company’s biannual global convention. “You have to avoid overcommunicating,” he says. “Franchisees are busy running a business and don’t always have time to download and read information from the corporate office.”

## wyndham worldwide

Total 2006 revenues \$3.5 billion Number of company-owned hotels 140 time-share resorts Number of franchised hotels 6,410



**STEPHEN P. HOLMES**, chairman, president and CEO of **WYNDHAM WORLDWIDE CORP.** (WYN), says he’s looking for the kind of take-charge franchisee represented by Steve Sparks. The managing partner of two Wingate Inn hotels — in Bozeman, Mont., and in Greenwood Village, Colo. — and two more under construction, Sparks says that Wyndham Worldwide’s assistance is vital. But he knows that the success of his hotels is ultimately up to him. “We have to run our business every day. If you don’t know your business better than the franchisor,” he says, “you may be in trouble.”

Keeping hotel operators like Sparks motivated once they become franchisees is not difficult, says Holmes. “Entrepreneurial spirit drives the desire because your net worth is tied up in the hotel,” he observes. “That tends to get your attention and pushes you.”

Holmes indicates that the combination of solid local businesspeople and the 20 Wyndham Worldwide brands — which include Ramada, Super 8 and Wyndham Hotels and Resorts — has allowed the company

**“if you’ve established a standard and are going to expand your brand, chances are at some point you need to expand through franchising.”**

— Stephen P. Holmes, chairman, president and CEO, Wyndham Worldwide

to serve travelers wherever they go. “Franchising lends itself well to the hotel industry, because each property is a significant investment. To create a network large enough to support the traveling public, you need significant capital to build the infrastructure,” he says.

Holmes points out that Wyndham Worldwide’s role is to build the brands through national advertising, among other techniques. Further, says the CEO, the franchisor provides a robust Web-based reservations system for each brand and state-of-the-art yield-management technology. “A yield-management system helps determine pricing given the expected demand for rooms,” explains Holmes. “The more you manage your yield by moving room prices up or down at appropriate times, the better your return on investment will be.”

Although yield-management “has always been a big priority for Wyndham,” says Holmes, two years ago the company launched Proj-

ect Archimedes, meant to improve revenues of individual hotels. That, he explains, led to creating a field-based

team of experts who visit individual hotels with a mandate to evaluate overall operations and suggest ways to make improvements. “Wyndham Worldwide helps with ideas on everything from marketing to housekeeping,” says Harvey Aman, president and COO of Super 8 Motel Developers Inc., which runs Super 8 motels in four states. “Before this program, everything was done by phone, or the motel representative had to go to a regional meeting to hear broad suggestions. Now someone comes on-site and works with the manager. It has been very beneficial.”

