BY DEBBIE SELINSKY

COLLABORATIVE Tension

INDEPENDENT FRANCHISEE ASSOCIATIONS ARE IN FOR THE LONG HAUL

It's like most relationships. Sometimes things seem stable and positive between franchisees and franchisors. Other times, during ownership, leadership, system, or product changes, things can get downright contentious.

Even when things are going well between franchisees and franchisors, a certain amount of underlying tension is inevitable, since relationships can—and do—change quickly, says Patrick Kaufmann, professor of marketing and chair of the School of Management Marketing Department at Boston University.

Kaufmann, who has been studying franchising for 25 years, is also a board member of the Dunkin' Donuts Independent Franchise Owners. Working with Cornell University's Ben Lawrence, he conducted a study on franchisee associations that was published last year in the *Journal of Retailing*.

"The thrust of the study was how franchisee associations deal with the fluctuation of relationships with franchisors. What became clear is that it's common fiction that says franchisees turn over a lot and the franchisor just continues on," says Kaufmann. "That's completely wrong. The fact is that franchisors and franchisor management teams turn over all the time. This means that franchisees, a group that is often multi-generational, have to deal with different owner or management groups on a frequent basis."

"It's common fiction that says franchisees turn over a lot and the franchisor just continues on," says Kaufmann. "That's completely wrong."

Pat Kaufmann

And those ownership or management changes can have unpredictable results. "Relations may change from being highly problematic and contentious to very good working relationships or go the other way entirely. If you're a franchise association member, when things are contentious you don't want to do things that lose sight of the fact that you need to work with these folks," he says. "On the other hand, when things are calm, you don't want to forget that tomorrow may bring change and become too complacent. So there's this constant tension of balancing both kinds of relationships because you know they're not permanent."

The fact remains that, in 2012, independent franchisee associations (FAs) are forming at a rapid pace, says Michael Dady, founding partner of Dady & Gardner, whose Minneapolis-based law firm represents 32 different franchisee associations. One reason, he says, is that some franchisors still refuse to recognize independent franchisee associations, preferring instead to deal with franchisees on the franchisor-controlled franchise advisory council (FAC).

"Some franchisors allow franchisees to elect some of the members of the FAC, while they appoint the others; other franchisors determine the entire makeup of the FAC. Regardless, the word 'advisory' means franchisees on the council have the right to advise, but have no power to effect any changes in the system or to veto the franchisor's decisions."

That's where independent franchisee associations come in. "Franchisee associations are subject to franchisee control and have the legal standing to do some things, including the right to bring lawsuits. FACs have no legal standing," says Dady.

Another reason for the increasing numbers of FACs is that franchisees today "are smarter, have been in business, and know how it works," says Dave Glodowski, former president of the Independent Hardee's Franchisee Association. "Over the last 10 to 15 years, the relationship between franchisees and franchisors has tended to favor the franchisor because of extreme clauses in franchise contracts. Forming an association gives franchisees more power and the ability to talk to franchisors from a position of strength. It's more meaningful, and productive and voices are being heard."

Glodoswski believes much of the reason is independence. "Whoever pays the bills has the power. When you're on a FAC, you go to their meetings and the franchisor picks up the hotel room and pays for meals, and things lean their way a little more. When you're an independent association executive or board member, your franchisee association pays for the hotel rooms and plane tickets and you go in with more credibility and authority," he says.

He says the relationship between Hardee's and its franchisee association is a good one. Michael D'Arezzo, vice president of franchise sales at CKE Restaurants, agrees, saying that both Hardee's and Carl's Jr. have among the "best franchisee associations in the industry in the way they engage with each other and with the company."

"The word 'advisory' means franchisees on the council have the right to advise, but have no power to effect any changes in the system or to veto the franchisor's decisions."

Michael Dady

Kaufmann is a strong supporter of franchisee associations. "It appears to me that things work better when franchisees deal with franchisees, possibly because of credibility and the filtering that goes on, as well as the topics under consideration," he says. "You also have a unified voice saying something isn't working. It's a lot more informative than just a random selection of franchisees complaining. It's to the franchisor's benefit to understand these are issues that may be endemic to the entire system."

Dady also considers franchisee associations the best way to serve franchisees. "Some franchisors say that, as a matter of policy, they communicate directly with their franchisees through their FAC. Unfortunately, that's shortsighted. An unsophisticated franchisee may think something is fine if it's endorsed by the FAC, but franchisors shouldn't be giving legal advice to franchisees because they're coming from a different perspective," he says. "A franchisor cares about maximizing top-line revenues and has a commitment to shareholders to improve their revenues. That's okay if it's not at the expense of franchisees, who don't mind helping build those revenues but are concerned about their own bottom line."

Recognizing and dealing with those different perspectives makes for stronger FACs and FAs, says Dady. "These groups have two different purposes: FACs, if operated in an efficient fashion, are there to give input on important issues that both the franchisee and the franchisor care about, and the franchisor should listen with an attentive ear and be responsive to that input. Associations provide members with independent advice to enhance their business and help them get value for their business when they want to sell."

When it works

Franchisors such as National Car Rental take what Dady describes as an "enlightened approach" to the issue of FAs and FACs. "National Car Rental communicates with both their FAC and the FA. They don't care who they're talking to because they want franchisee input," he says.

Peter Smith of Enterprise Holdings, Inc., which owns the National, Enterprise, and Alamo car rental brands, says the arrangement works because, "We are all about open communication, substance over process. The franchisee association is entirely autonomous and independent, a national body that is governed and controlled by franchisees exclusively. We collaborate a little more with our Policy Advisory Committee in terms of meetings, but if Mike Dady calls and wants to discuss a franchise issue on behalf of his clients, it isn't relevant to me whether it's the Policy Advisory Committee or the franchisee association. It's the same conversation with the same people," he says. "We don't have time for nuances; we're interested in being responsive."

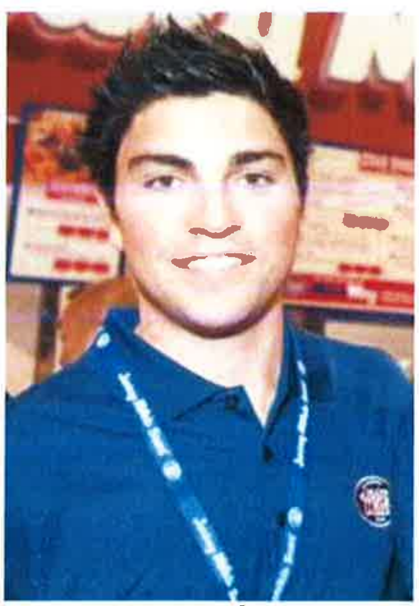
Dairy Queen, says Dady, is another example of a system that communicates and works effectively with both groups. "Dairy Queen recognizes both its FAC, which is national in scope, and the Texas Dairy Queen Operators, a franchisee association that comprises almost 20 percent of DQ's U.S.

system. Leaders of the TDQO show up at FAC meetings and provide input and take information back to their group."

At Jersey Mike's Subs the situation is a little different: it has only a franchisee advisory council. However, according to both franchisee leaders and franchisors, it works for them.

Danny Malamis, president of Team Washington and an area developer and franchisee for Jersey Mike's in metro D.C., was for years CEO of another large franchisee association. Today, he is a member of the Jersey Mike's National Advisory Council. "Things work at Jersey Mike's because of the close relationship between the franchisor and the franchisees. We discuss and have input on things that are important to franchisees, such as unit profitability and economics, prior to the franchisor making decisions."

"Things work at Jersey Mike's because of the close relationship between the franchisor and the franchisees."


Danny Malamis

"Forming an association gives franchisees more power and the ability to talk to franchisors from a position of strength."


Dave Glodowski

Brian Sommers, vice president of franchise development for Jersey Mike's, chalks up the system's positive relationship with its franchisees to "our company culture. It starts with Peter Cancro, our founder and CEO, whose mantra has always been making a difference in people's lives. Unit profitability is very important to us," he says. "No franchise system is perfect. We're not perfect. But if you talk to our franchisees, they'll say our track record is pretty good. Half of all our territories are being awarded to existing franchisees. That's a true barometer of satisfied franchisees."

When push comes to shove

Historically, many franchisee associations were born out of crisis. Gary Robins, a Supercuts multi-unit franchisee and a board member of the Supercuts Franchisee Association, says this isn't the best way. "The right time to form an association is when things are going well. This helps guide level-headed decisions and goals," he says. Robins, also an elected member of the Supercuts Advisory Council, describes his personal philosophy as "peace with the franchisor through strength."

Lou Bonilla, president of the Meineke Dealers Association, uses an old analogy to make that point: "If you're a country, you want to make sure you have the strongest military in the world. You hope you never have to use it, but if you do, you want to make sure you have it."

When things change

The Meineke Dealers Association is currently dealing with a change in franchisor leadership, says Bonilla, also an elected member of the Meineke Franchise Advisory Council. "We've had a very good relationship with the franchisor under Ken Walker's leadership for the past 10 years. He is a gentleman and one of the classiest people with whom I have had the pleasure to work. He didn't always agree and wasn't shy about telling you when he didn't, but one thing I could always count on: he listened. At the end of the day, that was valuable because you can change someone's mind if they're open."

Walker retired in July as CEO of Driven Brands, the parent company of Meineke. Jonathan Fitzpatrick has been named president and CEO. "We don't know yet exactly what that will mean," says Bonilla. "We're still waiting to see how that shakes out and look forward to hearing from him at our conference this fall."

Dave Schaefers, senior vice president of development for Meineke Car Care Centers, agrees that the relationship with the franchisee association has been a good one—something he believes will continue. "That relationship strengthens all the programs for our company, from the POS systems we use to the products we sell and how we do things. At the end of the day, both the franchisor and franchisees want to push unit economics in the right direction and use our collective best practices and how things are designed so we both benefit," he says. Interestingly, Meineke's annual conventions are put on by the franchisor and the franchisees in alternating years.

How FAs can add value

Glodowski says the Coalition of Franchisee Associations (CFA) is setting a great example for franchisee associations searching for ways to add value for their members. "The CFA spoke for franchisees everywhere with the Universal Franchisee Bill of Rights," he says. "They've done a fantastic job and created tons of momentum. Now that this has been accomplished, franchisees want to know what their association can do for them now."

Also important, he says, "A franchisee association has to show that it's speaking for all franchisees, big and small. They have to show they're doing something, moving forward with benefits such as marketing and operational assistance. When you add value to the organization, it will continue to grow."

The Meineke Dealers Association, says Bonilla, has a purchasing cooperative that adds tremendous value for its members. "We have paid out close to $800,000 to constituents based on their purchasing from co-op vendors. If you're a business spending $50,000 with vendor A who is not a co-op vendor, and you can buy the same products at the same price from Vendor B and get a rebate that is sometimes a nice chunk of change, why wouldn't you do it?"

Years ago at Supercuts, the franchisee association (whose members currently comprise 75 percent of the franchisee base) provided value to its members by rallying the fight against the franchisor, says Robins. "But today we have a completely different environment and a good relationship with our franchisor," he says. "It's almost more challenging because it means we have to find new ways to create value for our members,

"That relationship strengthens all the programs for our company, from the POS systems we use to the products we sell and how we do things."

Dave Schaefers

whether it's bringing in additional products or services, negotiating special circumstances or better pricing for them, or experimenting in new directions within our system. We also offer education and conferences with forward-thinking speakers and the sharing of best practices."

Another important service the Supercuts FA provides its members is Ethics-Point, an anonymous fraud/safety/discrimination reporting system managed by a third party and paid for by the association, says Robins.

Boston University's Kaufmann considers some of the most important franchisee association work to be lobbying, marketing, and providing an information clearinghouse. "The franchisee associations are almost a library of information for franchisees, doing what, in some ways, franchisors should do a better job of," he says.

How things can work better

When the discussion turns to ways relationships between franchisees and franchisors can be improved, certain words appear repeatedly: communication, transparency, accessibility, and respect.

Robins describes his role in both the Supercuts Franchisee Association and Advisory Council as relationship-based. "You have to invest in relationships with your franchisor partners. You can't always be one-sided. Franchisees will give you a list of 30 things that are wrong,

"The right time to form an association is when things are going well. This helps guide level-headed decisions and goals."

Gary Robins

COLLABORATIVE

Tension

"If you talk to our franchisees, they'll say our track record is pretty good. Half of all our territories are being awarded to existing franchisees. That's a true barometer of satisfied franchisees."

Brian Sommers

and when you fix 10 of them, they'll fill in with 10 more," he says. "You have to pick your battles by prioritizing what's important, coming up with three or four things that you solve through the relationship—and, when addressing problems, you have to propose a solution."

At Jersey Mike's, Sommers says corporate tries to keep stable relations with franchisees by being open and accessible to its franchisees. "We have a whole team of area directors around the country who are accessible at all times, and that goes for all of us here in New Jersey, too. You want to call a cell phone at midnight? Somebody will pick up. It's about being open and transparent. If there are no secrets, issues have a tendency to work themselves out."

Nigel Travis, CEO of Dunkin' Brands, says his management team is constantly working on its relationship with franchisees. "We consider our franchisees our primary customers and are constantly working to help them improve their profitability," he says. "A big part of maintaining that relationship is with constant communication and collaboration through the Franchisee Advisory Council. Franchisees are elected by their peers to represent them in district, regional, and national advisory groups that connect directly to Dunkin' Brands leadership. Many of our best ideas have come from working side by side with franchisees through the Advisory Council system."

A good example of this collaborative approach is when the franchisor and franchisees "worked together to convert Dunkin' Donuts and Baskin-Robbins U.S. locations onto one POS platform," he says. "From the start, our franchisee leaders provided feedback on our approach, reviewed the components of the program, offered feedback on financing packages, and then several members tested the components in their restaurants before the national rollout. We are now approaching the completion of these projects for both brands, which will help support our franchisees' bottom lines. At Dunkin', this common POS platform also helped us deliver our Dunkin' mobile app, which we released in August, ahead of many of our competitors."

Dady believes that, overall, franchisors and franchisees can best work together by "looking out for the long-term best interests of both. When you do that, good things happen," he says. "Enlightened franchisors recognize that franchisees need to be profitable, and that any success done on the back of the franchisees is short-lived and can mean long-term pain for the franchisor."

Robins agrees. "Your primary concern as an association leader is the franchisees. That's where your loyalty must lie. But both franchisors and franchisees have to rise above their own self-interests and have a broader vision for the good of the system." MUF

"We consider our franchisees our primary customers and are constantly working to help them improve their profitability. A big part of maintaining that relationship is with constant communication and collaboration through the Franchisee Advisory Council."

Nigel Travis