1 Franchising as Entrepreneurship

Lincoln Speers spent 20 years building a successful career as an investment banker. He was living in New York, thriving professionally on Wall Street and making a lot of money. "So I quit and bought a Krispy Kreme franchise."

Derek Skeletsky had a newly minted MBA and a pocketful of job offers from big companies. He went right from graduation to Snip-Its, a three-store children's hair-care company. His role is to grow Snip-Its as a franchisor. "I believe in the product, and I think franchising is a way to make it big, very big."

The motivations of these two entrepreneurs are strikingly similar and consistent with key themes in this book. Both are interested in pursuing a life as an entrepreneur with its inherent freedom and creativity. They understand there are risks in starting a business. At the same time, they want to go beyond a basic lifestyle business to seek wealth. Their vision is of a professional life that offers the opportunity to engage ideas, employees, partners, and customers in a personal and direct manner. The best way to control your destiny is to confront it with action. They don't want to be just part of an opportunity—they want to seize it.

Two people at very different stages in their lives came to the same conclusion. They see franchising as a pathway to entrepreneurship and wealth. One is now a successful franchisee with 12 restaurants in Reno, Nevada. The other is in the midst of launching the franchise with visions of a national rollout. Both of them believe that franchising can help them achieve their goals. This book provides insights into franchising from a holistic perspective that allows you to see how the franchisee and the franchisor thrive together and to decide which aspect of the franchise partnership is best for you.

Franchising

Why is franchising such a powerful economic engine? Because it is a sophisticated, entrepreneurial alliance through which thousands of individuals create vast wealth. This is a book about entrepreneurship. More specifically, it is about franchising as a pathway to entrepreneurship and the creation of wealth. The franchise entrepreneurial spirit in the United States has never been more alive than today. Forty-five hundred franchise businesses with 600,000 outlets crowd the marketplace, accounting for a third of all retail sales nationwide. The International Franchise Association expects that franchise businesses will continue to thrive and prosper for the foreseeable future, growing to account for at least 40 percent of U.S. retail sales in the next decade.

What is franchising? Franchising happens when someone develops a business model and sells the rights to operate it to another entrepreneur, a franchisee. The company selling the rights is the franchisor. The franchisee usually gets the rights to the business model for a specific time period and in a specific geographic area. Franchising is sometimes referred to as *business format franchising* or *product franchising*. McDonald's is the classic business format franchise, and an auto dealership is the classic product franchise. In a business format franchise the way the product is delivered is as important to the brand as the actual product—for example, golden arches and red-roofed building for McDonald's. In a product franchise, the actual product—not the way that it is delivered—is the focus. An Audi can be sold from a standalone, single-brand store or from a multi-branded dealership. While business format franchises tend to form a more rigid relationship, obligating the franchisee, the distinction between business format and product franchises is becoming more and more blurred. If you understand the business format franchise, you'll have little difficulty with the product franchise relationship. The lessons of this book can easily be applied to both business format franchises and product franchises. The key feature of the franchise system is that the ownership of the brand and the modus operandi for the delivery of the product are retained by the franchisor, and execution is a franchisee responsibility. A wide range of services and products are delivered through a franchise: Some include oil lubrication, gas stations, automotive service, tax advice and preparation, landscaping, cleaning services, as well as the commonly recognized restaurant and fast-food industry. Normally, delivery is through a franchise outlet, or store, although there are several franchises that operate essentially without stores or with reduced real estate constraints. For example, Service Master and Snap-On Tools franchisees operate from a central office that provides support for back office needs and vehicles to deliver products.

What you gain in a franchise entrepreneurial alliance is a method for exploiting a business opportunity in a competitive manner. One of the biggest benefits to you is a dramatic compression of the long apprenticeship often necessary for entrepreneurial success. The would-be franchisor recognizes an opportunity and designs a service delivery system to exploit that opportunity in a unique way. The franchisor bears the burden of assessing the market, creating the product or service, establishing the brand, building the business plan, and measuring the competition. The franchisee can get down to the process of cultivating customers and an awareness that incremental changes may be necessary to assure the franchise's ongoing competitive advantage.

The trademark or brand of the franchise is what creates the bond between you and your franchise partner, the brand owner. You share a mission to maintain and build the brand, which already signals a price–value relationship in the minds of your customers. The franchisor brings the brand; you bring the entrepreneurial instincts to manage the day-to-day selling. It takes both of you to achieve market acceptance of the brand.

What It Means to Be Entrepreneurial

Entrepreneurship, according to Howard Stevenson of the Harvard Business School, is "exploiting an opportunity regardless of the resources currently available." Stevenson goes on to say, "The key to this perspective is the focus on opportunity" (not on resources).

What does it mean to focus on opportunity instead of on resources? Think about baking a pie. If we focus on resources, we first line up the required ingredients. The next step is to combine the ingredients in just the right amounts. But if we are looking at this as an opportunity, first we consider whether the pie is even what people want to eat. If the answer is yes, then we find out what kind of pie people want and figure out how to deliver a better, faster, cheaper one. Business development is not a zero-sum game. Where some see competition, or winners and losers, entrepreneurs see wealth creation for a larger set of stakeholders and ultimately for society.

By focusing on opportunity, the entrepreneur seeks to fill a need that has been previously ignored or underserved. The wealth he or she creates in the process elevates the lifestyles of a segment of the population, specifically the *stakeholders,* or people with vested interests in the success of the "pie"—that is, customers, suppliers, marketers, and retailers. Entrepreneurs focus on delivering value to the marketplace by seeking, analyzing, and shaping an opportunity, and only then concentrating on attracting resources. The opportunity is the primary concern, the resources secondary.

So, if you discover an opportunity, and you can create wealth, you've won the game, right? Clearly not. Discovering an opportunity is not the end of the process. We believe that "Entrepreneurship is a way of thinking and acting that is opportunity obsessed, holistic in approach, and leadership balanced—for the purpose of wealth creation."[1] Let's look more closely at this idea of entrepreneurship.

How do we define *wealth*? Although profit and capital gain are easily measured benchmarks, they are certainly not the only measures of wealth. The stakeholders in the opportunity—the founders, customers, employees, shareholders, and suppliers—must see intrinsic value in the exploitation of the opportunity for individual gain. Ultimately, the stakeholders must define wealth. "Opportunity obsession" brings a dynamic element to the focus on opportunity—we are never finished shaping the deal. The explicit link between "thought and action" suggests a rigorous planning process as opposed to gun-slinging, seat-of-the-pants business behavior. "Holistic" remind us that the business environment both within and outside the franchise firm is constantly changing, and we must always be taking its shifting patterns into account. Finally, "leadership" is the important human element underscoring that entrepreneurial activity is typically focused by the vision of a single person or a committed team.

Franchising is, at its core, an entrepreneurial alliance between two organizations, the franchisor and the franchisee. There is no franchise per se until at least one company store exists, the opportunity has been tested, and franchisees sought. Once the concept has been proven, the franchisor and the franchisee enter into an agreement based on their belief that there are advantages in the alliance. An advantage is when you can outperform the competition. Franchising clarifies which partner can best perform a certain job that is relevant to the end product or service. The key motivation behind franchising is that each partner seeks to create wealth for himself or herself by exploiting the opportunity together.

Franchising: Small and Big Business

One of the strengths of franchising is that it provides a wide breadth of options for individuals to find an opportunity to meet their financial goals and business visions, however conservative or grandiose. Franchising allows entrepreneurs to build wealth to varying degrees according to the scale of the business enterprise. For those whose life goal is to own a pizza restaurant and earn a comfortable income, the opportunity is there. They become small business owners. But franchising may afford the opportunity to build 300 pizza restaurants using a business model that allows a sharing of both risks and rewards with other "owners" in a system.

It's important, of course, to do your homework before choosing a franchise arrangement that suits your needs. If, for example, the company sells franchises only in small markets and keeps big markets for company stores, this may not send the best signals to the prospective franchisees. Or, if the company limits the growth potential of franchisees by tightly controlling the number of units, or if it expands with numerous franchisees in a high-potential market, mixed messages may also be perceived by prospective franchisees. You have to understand how big your appetite is and whether a franchise of interest will allow you to stay small or become big. The prospective franchise has to allow you the chance to be rewarded as desired without exceeding your tolerance for risk.

There are companies designed to encourage successful franchisees with the opportunity to buy more stores in a particular market or region. Franchisees who achieve prosperity with a single unit are rewarded with additional stores. The entrepreneurial process is encouraged, and greater wealth can be created. Please note that some franchisors push franchisees to grow beyond their capabilities. Boston Markets (formerly Boston Chicken) pushed franchisees to grow more quickly than the market (or maybe the franchisees' ability to operate) could sustain. The company ultimately went bankrupt and was bought by the McDonald's Corporation.

Although it is possible to enter into franchising with a small-business perspective, franchising is, at its core, a large-scale entrepreneurial growth strategy for the franchisor. That might mean a series of different relationships with franchisees based on the franchisees' appetite and capabilities. A franchisee might want to operate only one store because it fulfills his or her entrepreneurial ambitions. Another franchisee might want 10, 20, or 100 stores. The franchisor must understand that its total system growth and success is dependent on a combination of single and multiunit franchisees. The fundamental point is that both parties must be aware of each other's expectations for success and wealth creation.

Remember, the focus of our definition of entrepreneurship is opportunity. The franchisor's development of a business model that is offered as a franchise is a thoughtful approach to opportunity recognition followed by execution and shaping of the opportunity. Therefore, opportunity, thought, and action are key elements of a franchise company. Because each partner expects to create wealth from the relationship, the entrepreneurial definition is sealed.

Modeling Entrepreneurship[2]

Let's assume for a moment that you've selected a franchise opportunity and completed your investigation of its potential. How will you integrate your entrepreneurial goals with the mechanics of running a franchise? In a nutshell, you will recognize and shape the opportunity to identify both the resources required and the appropriate team. This opportunity is the cornerstone of the entrepreneurial process. Let's talk briefly about how to recognize an opportunity.

The Opportunity: The Core of Entrepreneurship

Bill Gates once said, "Vision is the easy part." But when you think you have the vision, the good idea, your very next question must be, Is it an opportunity? You must understand what separates an opportunity from an interesting idea. Think in terms of three subsets of opportunity recognition: market demand, market size and structure, and margin analysis. Let's examine each concept in turn and make the links to franchising.

When anyone approaches us with a concept that may be a franchise business, we ask a lot of questions about market demand—about who will buy the product. Assessment of an opportunity requires an articulate understanding of market demand. We want to know everything possible about these potential customers, beginning with who they are and why they will buy from us. A prospective franchisee should ask probing questions of the franchisor (and their franchisees) about their customer and how deeply the franchise systems understand the nature of the customer. Here are five important questions you should ask about your potential customers. The order of the franchise opportunity analysis is to first determine the viability of the opportunity, then to develop a mechanism (which we call the service delivery system, or SDS) to extract the demand in your local market.

Five Key Market Demand Questions

- **Who is the customer?** Describe the customer most likely to express a demand for your product or service. This analysis process consists primarily of collecting data about the customer's geographic, demographics, and psychographics, which we cover in the following sections.
- **Is the customer reachable?** The saying "Build a better mouse trap and the world will beat a path to your door" is misleading in an entrepreneurial context because even the best opportunity will be limited by the entrepreneur's ability to reach the customer. Customers will not beat a path—instead, you must build a roadway to them! You must plan a method of distribution to determine whether the customer is indeed reachable. Channel development (the process of building the roadway to the customer) is both acutely important and a particularly strong aspect of successful franchising when properly executed. Without a strong channel to reach more customers, there can be no growth. In later chapters we discuss this in detail.
- **Is the price–value relationship attractive to the customer?** The more quickly customers receive value from a product or service, the greater the likelihood of increased market demand. Therefore, the longer it takes for customers to identify the relationship between price and value, the greater is the risk to both the franchisee and franchisor. Some people may argue that immediate customer satisfaction (and therefore reduced risk of price–value imbalance) is one reason franchises tend to be retail focused.
- **Can the business achieve a 20 percent market share?** The proof of sustainable market demand is significant market share. Businesses that last become markets leaders, and history has defined leadership as being in the range of 20 percent market share. Market leadership is not necessarily a requirement for a successful venture, as the large number of businesses that are successful "intelligent followers" can attest. Just look at Meineke Muffler and Wendy's Old Fashioned Hamburgers, and the ability of an

intelligent follower to achieve success in its own right is evident. However, leaders have market power that affects funding, pricing, and marketing issues that tend to positively affect return on investment.

- **Can the business grow at an aggressive annual rate?** The pace of growth over time determines the firm's projected life cycle and helps establish the richness of the opportunity. The consumer and capital markets dictate what rate of growth is considered aggressive. During the Internet boom, for example, annual growth rates were expected to exceed 100 percent. While rapid growth is a hallmark of high-potential ventures, a historical perspective indicates that something closer to 20 percent annual growth is more the norm. You must calculate how long it will take to clearly identify your customer and develop a plan to reach that customer.

Targeting the customer who has an expressed demand for your offer is the fulcrum of action in entrepreneurship and franchising. Let's look at some of the ways in which you will profile your prospective customers.

Geographic Profiles

The scope of a business concept is local, regional, national, or international. A sample national market is the United States, which is typically divided into nine regions: Pacific, Mountain, West North Central, West South Central, East North Central, East South Central, South Atlantic, Middle Atlantic, and New England. Regions are divided by population density and described as urban, suburban, or rural. Population densities in these subdivisions range from under 5,000 to 4,000,000 or more. Franchises define a market by the number of people necessary to support a single unit of operation or store.

Geography may in fact prove to be an advantage to franchisees, not a limitation, as some believe. Many regional franchisees limited by geography are free to develop other noncompetitive offerings in their local areas. In fact, many of the most successful emerging food service concepts, such as Krispy Kreme, Panera Bread, and Baja Fresh, will sell only to successful regional franchisees of other concepts who have demonstrated their knowledge of the area and ability to successfully run their operations.

Demographic Profiles

A demographic profile is a compilation of personal characteristics that enables the company to define the "average" customer. Most franchisors perform market research as a central function, developing customer profiles and disseminating the information to their franchisees. That research may include current user and non-user profiles. Typically, a demographic analysis includes age, gender, income, home and work addresses (driving or walking distance from the store), marital status, family status (number and ages of children), occupation, race and ethnicity, religion, and nationality. We put demographics into context by looking at data specific to the business concept we are considering, such as mean number of registered automobiles for a Midas Muffler franchise territory or percentage of disposable income spent on clothes for a Gap franchise.

Link your analysis of the data to your vision of the concept. For example, if you launched an earring company 10 years ago, you might have defined the target market as women ages 18 to 40 and the size of the market as the number of women in this age group in the United States. But what does that vision look like today, in the larger market that now exists? The target market for earrings could now be defined as women and men ages 12 to 32, who purchase an average of three earrings per individual, not two. Clearly, identifying your target market requires that you combine demographic data with a unique vision of the future for the venture.

Defining the target customer is essential because it dictates so many diverse functions of the business (see TIP 1–1). Most importantly, it measures the first level of demand, the customer with the greatest need. Once you've defined this primary target audience, you can also find your secondary targets: other customers who might want your product or service. The degree of market penetration in the secondary target is usually less than that of the primary target, because a secondary market is by definition a customer with a lower likelihood of using your service. You can make revenue projections from your definition of target audiences and the degree of market penetration you expect based on historical information.

Although measuring market demand is not an exact science, a franchisor continually collects data about its customers through point-of-sale data from franchisees and more typical market research tools, such as surveys, focus groups, and test marketing. Even after buying your franchise, you will continue to compare local market demographics with national profiles to help you decide the number of local outlets that can be developed. TIP 1–1 illustrates the principle of target markets and the significance of anticipating or modifying a concept to fit changing market needs.

Psychographic Profiles

Psychographic profiles segment potential customers based on social class, lifestyle, and personality traits. Information of this nature is defined both broadly, through industry research such as that of a trade group, and narrowly, as defined by individual companies through their own market research. This research is almost always conducted by a franchisor on an ongoing basis as the system grows. Following is an example of the more broadly defined pyschographic information. Franchise systems construct profiles of their customers to better understand their needs and to focus growth in areas with the highest density of targeted customers.

TIP 1–1 Theory into Practice: Radio Shack's Moving Target Market

Target markets are dynamic, often changing organically in size and shape. Back in the 1970s and 1980s, for example, Radio Shack grew by addressing the needs of technophiles—young men with penchants for short-wave radios, stereo systems, walkie-talkies, and the like. The national retail chain supplied this audience with the latest gadgets and did very well.

Then, starting in the early 1990s, technology became more sophisticated. Personal electronic equipment began to include cell phones, handheld computers, and electronic organizers. The market for these products was expanding from a smaller group of technophiles to a larger group of middle-aged males who loved gadgets and who had more disposable income. Yet Radio Shack remained Radio Shack. Its audience dwindled while the personal electronics market boomed.

Radio Shack wisely refocused its business to target this new demographic. Its advertising addressed the needs of the 44-year-old upper middle-class male instead of the 29-year-old technophile. That 29-year-old who used to shop at Radio Shack was now 44! He was not going to build or repair a radio, but he would buy a cell phone. Radio Shack made dramatic changes in its marketing and inventory. As a result, it has also made dramatic improvements in its profitability and continues today as a major retailer for mobile phone product and service providers.

Social classes in America are generally divided into seven categories:

1. Upper uppers (1 percent)
2. Lower uppers (2 percent)
3. Upper middles (12 percent)
4. Middle class (32 percent)
5. Working class (38 percent)
6. Upper lowers (9 percent)
7. Lower lowers (7 percent)

Lifestyle addresses such issues as health consciousness, fashion orientation, and being a car enthusiast. Personality variables such as self-confident, conservative, and independent are used to further segment markets.

Behavioral Profiles

Behavioral variables segment potential customers according to their knowledge, attitudes, and use of products. A detailed understanding of the target market and why certain consumers will buy your product or service gives you great knowledge of the competitive landscape. Why will consumers spend their money with you instead of with someone else? Behavioral variables can come to bear in instances such as designing advertisements. In designing an ad for your highline automobile franchise, you may determine that the most important behavioral characteristics of the majority of your customers are concern about the car's pricing and concern about its appearance. Therefore, you would design your ad to be free of clutter, focusing on an image of the car and on an aggressive price. Once a customer has walked into your dealership to start a transaction, the individual salesperson can tailor the presentation to the specific needs and wants of the customer.

Opportunity Recognition: Market Structure and Competition

Now that you have an idea who your target customers are, ask who currently serves them. Identifying your competitors and their relative strengths helps you define the overall market structure. The market structure that usually provides the most fertile ground for the entrepreneur is fragmented or emerging. A fragmented market provides the opportunity to consolidate the market around a brand—that is, to provide the consumer with a product or service defined by a positive price–value relationship embodied in a trademark or brand. Jiffy Lube provides an example of this. Before the quick-lube industry was born, preventive maintenance for an automobile was ill-defined by providers and not well understood by consumers. The company's goal is to redefine preventive car maintenance as a "Jiffy Lube."

The other attractive market structure for an entrepreneur is one that is emerging. The aging population has created an emerging market in health care, for instance. Although some companies have been more successful than others, this emerging market has attracted a number of franchised medical clinics, vitamin retailers, assisted-living centers, and other health-care product and service companies, all seeking to ride a national or international tide of growing demand.

Opportunity Recognition: Market Size

Once you understand who the target customer is, you must calculate how many there are and then determine more specifically the size of any given local market. In other words, is the juice worth the squeezing? Do you believe enough customers will buy your product or service to make the potential for wealth creation reasonable? Understanding market size helps you to understand the scope of the opportunity—is it local, statewide, national, international, or global? When looking at market size in the United States, keep in mind that there are 300 standard metropolitan statistical areas (SMSAs), which is the U.S. government's title for a metropolitan area. International means having a presence in a country other than the home market. Global means having a marketing perspective that includes many national markets in a rational development and management plan. Market demand is time-dependent. Consumer trends imply changes over time, and therefore your measurement of market size must look into the future.

Jiffy Lube determined market size by the following calculation: When the company was started, there were approximately 120 million cars and light trucks in the United States. The average car owner required preventive maintenance service 2.8 times per year. Therefore, market size was defined as 336 million services per year.

Interestingly, in the midst of Jiffy Lube's analysis of market size, the founders saw a dramatic change occurring in market conditions that they believed would lead to changes in market structure. The existing supply of general "bay" maintenance was shrinking with the proliferation of self-serve gas stations. The opportunity existed to reintroduce bay maintenance with a more specialized service. This combination spawned the creation of a new industry (the quick-lube industry) and a corresponding new revenue growth curve in automotive services. In this example we see how markets move in certain directions. The size of a market is almost always changing (whether getting bigger or smaller). The fact that markets are always changing introduces time as an important qualifier of market size.

Too early in the life cycle, and there is not enough demand to sustain the firm. Too late, and brand position can be lost to a competitor. "Vision" in entrepreneurship is very much about where markets are *going*. Franchising is a mechanism that can allow for more efficient flexibility when market conditions dictate a contraction or rapid expansion. It also can more quickly contribute to the fulfillment of latent demand and therefore increase in market size. Because of the changes recognized by the Jiffy Lube founders, the 2.8 average oil changes per year soon grew to 3.2. The contraction of service bays because of the switch to self-serve gas stations combined with the increased convenience to customers because of Jiffy Lube's unique building and system allowed customers to get their oil changed more frequently.

The probability of success increases dramatically when your business is launched at the most appropriate point in the product life cycle. Consider the five stages of the business cycle: research and development, launch, growth, maturity, and decline. The most fertile entrepreneurial territory is clearly located within the growth stage. The growth stage is where you can see the power of franchising to reduce risk. Prospective franchisees should pay attention to what stage of growth the franchise system is in when making a decision to buy. The earlier the industry stage, the greater the risk—and likely the greater the potential return. When existing market demand is compared to market size, we have a fairly clear picture of the potential opportunity. TIP 1–2 takes a look at this calculation using the example of Jiffy Lube International, Inc.

Opportunity Recognition: Margin Analysis

Margin analysis is the final differentiator between an opportunity and an interesting idea. As part of your opportunity-assessment process, you must demonstrate that you can provide a product or service that is faster, better, or cheaper than what currently exists. If you provide better products or services, will the market pay for that offering, and will you gain a viable and sustainable profit margin?

Gross margin is the basic ratio you examine in the opportunity-assessment process. Net profit, cash flow, and consideration of the time necessary to break even are also vitally important. Common indicators of a competitive advantage are being the low-cost provider of a good or service and having a lower capital requirement than the competition. Many franchisors use a 20 percent return on investment (ROI) as their benchmark for successful store-level economics. However, everything starts with cash flow for the franchisee. The amount of positive cash generated beyond the breakeven point is the ultimate measure of a good opportunity. We discuss the financial ramifications and implications of a franchise's service delivery system in Chapter 8 when we compare two franchises: Bagelz and Panera Bread.

Resource Marshaling: The Establishment of the Service Delivery System (SDS)

When it comes to resources, the mantra of the successful entrepreneur is to "minimize and control rather than maximize and own." Remember, the objective is to create wealth through the exploitation of a defined opportunity. Your goal is not to own resources but rather to use resources to exploit the opportunity. Minimizing the required resources is often a competitive requirement for the startup venture. The well-assessed and well-shaped opportunity is your guide for marshaling the right resources. You must ask yourself, What are the minimum resources I need to exploit the opportunity?

The creative marshaling of resources can be the most challenging part of the entrepreneurial process. Sometimes you can gain flexibility by turning traditionally fixed costs into variable costs. Part-time help, commissioned sales, and facility rent determined as a percentage of sales are examples of making expenses fit better with the revenue they generate. Another mechanism is to outsource or lease underutilized assets. Before buying the Panera Bread franchise rights for

TIP 1–2 Theory into Practice: How Jiffy Lube Exploited a Fragmented Market

Where there is no market leader, there is often an opportunity. Jiffy Lube was a classic "consolidation play." Before the company started, there was no dominant brand in the automotive oil-change market. It would have been difficult to name the key providers of preventive maintenance service. Car and tire dealers, gas stations, garages, and do-it-yourselfers split the market into small segments.

Men dominated automotive care decisions. The do-it-yourselfer was the most strident competitor for the startup. But by the time men were 29 years old, they tended to seek alternatives to doing it themselves. The initial target market was a 29- to 54-year-old male car owner.

Beyond this, the founders of Jiffy Lube identified a gap in the delivery of oil changes. First, what an oil change included varied significantly, from a simple oil change to changing the oil and oil filter. And what about fluids, such as transmission and brake fluid? Pricing varied from $9.95 to about $45. Second, delivery time was erratic at best and often extended through most of a workday. The assessment of the opportunity dictated a comprehensive preventive maintenance service, delivered in a defined period of time at a package price.

It is said that the well-defined opportunity can be described in a "30-second elevator pitch." The Jiffy Lube opportunity was as follows:

- Check fluid levels for the transmission, differential, brakes, battery, and power steering, and fill as needed.
- Fill the windshield washer fluid, vacuum the interior, wash the windows, and inflate the tires.
- Deliver all this within 10 minutes, at one fixed price, with no appointment, in a bi-level drive-through facility.

Although the scope of the market seemed significant, it told only half the story, the franchisor's half. The franchisee is the local implementer of the concept. Understanding the finest textures of the target market demand becomes essential at the point of execution for the franchisee.

At the time Jiffy Lube was launched, the per-unit breakeven was about 30 cars per day. Breaking even quickly was essential to the survival of the individual franchise. Many stores doubled or even tripled breakeven within the first year of their unit's operation. For those franchisees, the Jiffy Lube concept was quickly proven, and significant wealth was created. Other franchises never achieved breakeven and ultimately failed.

New Hampshire, franchisee Mitch Roberts and his partner assessed the cost of land and new building construction. He judged it might exceed $600,000 per outlet. If they had gone to a bank and obtained a mortgage, they would have had to put down between $120,000 and $240,000. Applying the mindset of minimize and control, they went to a landowner and said, "Would you build us this building and lease it to us?" The real estate costs were thereby reduced to $50,000 per year with no cash up front.

Another way to get into the minimize and control mentality is to "think cash last." When you have defined the appropriate resources for your opportunity, ask, How do I gain access to these resources without writing a check? We suggest that you begin by leasing the building and the equipment. Set up payment terms so that vendors can be paid with customers' cash if at all possible. Only when there simply is no other way, obtain cash from an investor to buy what you need.

You'll draw your roadmap for marshaling resources when you establish the service delivery system (SDS). The franchisor develops a method for delivering the product or service that fills customer demand. In its most basic form, the SDS is the way in which resources are arrayed so that demand can be extracted from the marketplace. This SDS has to be well defined, documented, and tested by the company. It allows a company to conduct a comprehensive analysis of the way it delivers its product or service to customers. The end result of the organization, execution, and transfer of the SDS is the firm's competitive advantage.

The Entrepreneurial Team

High-potential ventures are best brought to fruition by management teams, not individuals. Choosing the team is the most important part of the entrepreneurial process. Be sure you understand what constitutes "relevant experience" in a potential team member. Perfect relevance is a track record of having launched a new venture in the same industry with great success for all the stakeholders. But experience can still be relevant and significant if the team member has startup experience, has had bottom-line responsibilities in the past, and has managed people and hard assets. At Togo's Eateries[3] the founders required a team with knowledge of real estate, construction, specialty foods, franchising, and marketing. Other franchisors are concerned not to have franchisees with industry experience because they will need retraining to shed their "bad habits." However, experience in local markets and marketing may be critical. Franchisees have to look at the age and experience of the franchise system and the sophistication of training programs.

After considering the relevant general business and specific industry experience of the team members, consider characteristics that we call the "vital organs" of entrepreneurs: opportunity obsession, flexibility, and leadership. One of the potentially dramatic advantages of the franchise entrepreneurial alliance is that the definition of the team can and should be very broad. When the franchisee organizations and the franchisor organization are viewed as a team, then both can leverage the special skills and competitive advantages of each.

- One particularly pertinent question to ask yourself is, Do I view the world in terms of opportunity or in terms of resources? The "manager" tends to focus on the marshaling and allocation of resources. The entrepreneur's perspective is opportunity-obsessed.
- Can you deal with ambiguity? The nature of entrepreneurship is that the venture is always changing. If change is a reality, you must be able to embrace ambiguity and uncertainty, and find the opportunities they create.
- Do you have stellar leadership skills? Someone has to get out in front, steer the ship, and declare, "This is where we are going!"

Entrepreneurial teams must have business experience relevant to the venture as well as the entrepreneurial characteristics described here. When these attributes come together, there is a team locus of control. There cannot be any "it's not my fault" mentality—there must be mutual passion and shared responsibility. In an entrepreneurial alliance, such as franchising, it is important that the team is defined at the intersection of the two organizations. The delineation of tasks defined by the opportunity can and should be filled by leadership from each of the strategic partners. If the two teams are not able to work together, the alliance is likely to be ineffective. The two integrated teams should be able to take advantage of each other's competitive strengths and powerfully exploit the opportunity. Remember our comment early in the chapter about franchising providing a dramatic compression of the entrepreneurial apprenticeship. The great franchises transfer the knowledge and experience of the system to their new franchisees.

Conclusion

We have defined entrepreneurship, explained its specific components, and put the components into a process that is easily understood and easily applicable to various business ideas. Clearly, opportunity recognition and shaping is at the heart of the process—and there is a vast difference between a great idea and a viable opportunity. Eighty-five percent of all successful entrepreneurs spend at least three to five years in their industry learning the language and niches before setting out in that industry to start a business.[4] This is an incredibly powerful principle that is especially compelling in the franchise relationship. If the franchisor can transfer its experience and bundle it with the entrepreneurial talents of franchisees, then the opportunity is leveraged and scaled.

As discussed, the three most important elements of this opportunity recognition process are market demand, market structure and size, and margin analysis. Without substantially understanding these elements as they pertain to your opportunity, determining whether it is a viable one or just a pipe dream would be a wild guess at best. But once these elements are identified, studied, and analyzed, you can proceed to the second major component of the entrepreneurial process: resource marshaling. Remember the mantra of the entrepreneur, especially during startup phase: Minimize and control rather than maximize and own. Even with superior opportunity recognition and sophisticated resource marshaling, people with relevant experience drive the entire entrepreneurial process. Central to the issue of people is the consideration of the characteristics or vital organs of the entrepreneurial team. Are they opportunity-obsessed and able to deal with ambiguity, and do they have clear leadership skills? These are important questions with consequential answers. Ultimately, leadership in the entrepreneurial environment is the process of constantly evaluating and shaping the opportunity—and subsequently balancing the human, financial, and physical resource requirements that are needed for the venture to begin, launch, grow, and succeed.

Next, we move from the more general discussion of entrepreneurship and franchising to the specific examination of how the concept innovator (franchisor) and the concept implementor (franchisee) join together for the purpose of creating wealth. In Chapter 2 we introduce the franchise relationship model (FRM), the framework for creating and analyzing the franchise organization.

Endnotes

1. Jeffrey A. Timmons and Stephen Spinelli, *New Venture Creation for the 21st Century,* 6th ed., McGraw Hill, 2003.
2. Special thanks to Professor Jeffrey A. Timmons. For an in-depth discussion of modeling the entrepreneurial process, see *New Venture Creation for the 21st Century.*
3. Togo's Eateries is a specialty sandwich franchise that began on the west coast and has grown across the United States.
4. Timmons and Spinelli, *New Venture Creation for the 21st Century.*