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A CONVERSION FRANCHISING FABLE

SYNOPSIS — This is a conversion "what if" that illustrates what could happen when the right combination of vision and resources come together in a retail industry that's ripe for consolidation. It has happened before and it can happen again. From *Oil Focus*, December 1998. *By E. Todd Ellison & Jean-Louis Janssen.*

Janssen Ellison Company
Business Growth Strategists™

A CONVERSION FRANCHISING FABLE

by E. Todd Ellison and Jean-Louis Janssen

The following is a fable, but it's the kind of fable that can be transformed into a reality in a surprising number of retail fields today. This tale is about brands, vision and a powerful strategy for rapid growth in units and market share.

Looking back on it from here — the holiday season in 2005 — it seems to have happened almost overnight. It didn't, of course, but it still seems that way. They're everywhere now, these AllMarts. When I say "everywhere" I'm not just talking about physical locations either; radio and television, too. Who would have believed that a convenience brand could ever earn top-of-mind awareness and customer loyalty like that? Particularly with the hypermarket thing so well established now. Maybe what took everybody by surprise was the fact that AllMarts are almost all franchise locations. These guys have grown by being in the systems business, not the retail business.

That, of course, was what made such a rapid rise possible (that and the fact that they were backed by you-know-who). They just took a page out of the Century 21 real estate book and applied it aggressively to the c-store industry. With the help of some 20-20 hindsight, I have to say that it made perfect sense and a lot of us have kicked ourselves for not doing the very same thing on our own. Little too late for that now, though. But I guess we were too deep in the day-to-day business of doing day-to-day business to see the big picture. When you come right down to it, it's a numbers game.

The thing that got the AllMart people on the map was the fact that they had figured out the numbers side of it ahead of time. It was their main strategy, really: market share. They weren't perfect, of course — nobody is — but they did a couple things really right. One of those things was advertising. They knew that to really build the kind of brand awareness and market share us old-timers used to dream about, you need to do a lot of advertising. And it was catchy stuff, too. The advertising equation was one of the things that convinced so many established operators to drop their existing brand — even their own store brands, built with their own egos — and go with AllMart.

Even though the power of advertising is pretty well known, there just wasn't anybody in our industry really putting the big money into advertising until AllMart came along. It's pretty simple arithmetic, really: 2 percent advertising contribution (on gross sales) from each location. Because they were able to put some big conversion numbers on the board early by getting some big independent marketers to play ball with them right from the get-go, they were playing with a $100 million annual advertising budget almost overnight. It still seems amazing, but they had 10,000 units after only two years of franchising. Now, with more than 20,000 stores flying their banner and still growing, it's hard to imagine who's going to be able to compete head to head with them in their markets. Of course, since they are a conversion franchise deal, they didn't have to build new stores from the ground up. Always seemed a bit like cheating to me.

Another smart piece of strategy was the investment they made in systems. Being a franchise company, that's one of the things they're really good at. Those of us who have faced the realities of building and maintaining effective purchasing and category management, training, design and engineering support, consumer marketing and all the rest of it, know just how important — and costly — that stuff is. With those systems and numbers it didn't take them too long to develop some real muscle when it came to negotiating with suppliers, either.

This purchasing clout, of course, allowed them to pull off another piece of their market share strategy: pricing their franchise royalty fees below other franchise companies, making it even easier for them to sell their conversions and build their brand. I guess this is the "positive feedback" or "increasing returns" principle that you hear so much about in the computer business. First time anybody has put it to work in our industry, though.

Maybe the thing that gave them the biggest market share edge was that little bit of consumer research they had up their sleeves when they went around pitching their conversion franchise to big independent marketers and oil majors. At least that's the way the mythology goes. Stories I've heard say that this research played a role in persuading these bigger players that they could shed their own house brands and commit to AllMart without hurting themselves from a consumer loyalty perspective. Once the first few signed on, the bandwagon effect started up and you know the rest of the story. Bottom line was a lot of AllMart units in a big hurry. Few of us skeptics would have ever imagined that you could have an AllMart on three different corners flying three different gasoline banners. And not only didn't consumers seem to mind, with all that advertising, fuel sales were up at AllMart sites regardless of the gas brand on the signpole.

Of course AllMart stores don't all look the same, which was another thing their research told them was okay. See, the convenience retail business got into the cookie-cutter thing at about the time that the big retail franchisors were getting out of it, having discovered that the box was not the brand. You can have different looking boxes without breaching the consumer's notion of what the brand was about. Partly, that's because they really focused on the delivery of top-notch customer service and figured out how to get franchisees to deliver on that part of the brand promise. And with some smart advertising, they also did a knockout job of differentiating AllMart from the rest of the industry.

I remember reading the online news item when the first oil major announced their deal to sell off their last company-owned stores to jobbers and, simultaneously, the signing of a master franchisee agreement with AllMarts for their big box c-store units. The handwriting had been on the wall for years, of course, but we never thought they'd actually get out of hands-on retailing to focus completely on what they do best. The AllMart phenomenon was evidently the psychological catalyst that allowed them to make the switch. The most surprising thing was how the stock market reacted. Oil companies don't get unambiguous signals like that very often. I guess the market had been waiting for it for years. Made some CEOs look like very smart guys.

Another of AllMart's smart moves was their proprietary CoMagic™ system. We all know how tough it can be to make the right co-branding and food service decisions. Because AllMart hooked up early with some very savvy jobbers, they were able to cook up this smart database that took a lot of the guesswork out of that scary part of the business.

I remember wrestling with the burger-pizza-taco-sub and house brand decisions for every new site and wishing we had some magic bullet like that. But we just didn't have enough experience or enough stores to do it ourselves very effectively. We did our best with a lot of legwork and a lot of intuition, but there was always a lot of hit-and-miss. With AllMart's numbers and systemwide database, though, they probably knocked 80 percent of the uncertainty out of these decisions.

Now, of course, with all their stores linked through their Intranet system, they can make data-based decisions on an almost daily basis that just a few years ago were flat out impossible on any basis. That's just one more reason why you don't find very many unhappy AllMart franchisees.

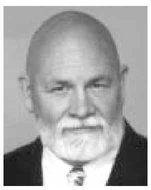
An additional reason is their support system. They've got some great field people, particularly their startup teams. But they've also managed to get their franchisees to use their online support, like the computer software industry does. Much to the surprise of a lot of us old-timers, it works! Saves AllMarts a bundle in support overhead, too, I'll bet. That's not to say there wasn't some grumbling along the way.

Of course, part of the reason their system works so well has to do with their franchise recruitment program. They have done a great job of glamorizing our business and bringing in some bright new blood, people who are both tech-savvy and customer-savvy, which is a pretty unbeatable combination — and not all that common in our industry. At the same time they've figured out how to tap the experience, expertise and entrepreneurial energy of the established marketers who also realized that it made good business sense to fly the AllMart flag. This is a huge amount of "experiential capital" which pays off in countless ways, but particularly in new product/service development and testing, and continual operational improvements. That's obviously how their merchandising and operational systems manage to stay at the cutting edge of the business.

Well I don't know exactly how I got on to this subject, but I guess revolutions are always interesting things to watch. Sorry if I just rambled on, but I can't help it; the meteoric rise of AllMart from nowhere to being the dominant brand in our industry has been a personal fascination for me. Professionally, though, I'm just glad I got out of the business before they got into it.

For those of you who are still in the business, I hope 2006 is a good year for you — and that AllMart hasn't come to your markets yet. •••

ABOUT THE AUTHORS



E. Todd Ellison, MBA, is a co-founder and Senior Partner of Janssen Ellison Company. He is a business growth generalist with three decades of experience as executive, entrepreneur and consultant. He has consulted to organizations ranging from Fortune 100 firms to start-ups and has more than two decades of hands-on franchising experience.

Mr. Ellison's expertise includes strategic planning, business and marketing strategy development, market research, franchising system development, advertising and corporate image development. He has an unusual ability to blend the creative, the analytical and the practical and has co-authored numerous articles and papers on franchising and related topics.

Jean-Louis Janssen, MBA, is a co-founder and Senior Partner of Janssen Ellison Company. He has been intimately involved in all aspects of franchising for three decades, including owning and operating two franchise companies totalling more than 300 franchise units.

As a business growth generalist he has helped numerous companies—from Fortune 100 multinationals to start-ups—investigate and implement franchising and other third-party distribution strategies, and establish successful new or expanded businesses. He has also performed successful turnarounds of troubled companies in the field.

Mr. Janssen has co-authored numerous articles and papers on franchising and related topics.

ADDITIONAL READINGS

The following articles are among those available on the company's website at:

www.janssenellison.com

Some Plain Talk About Franchising

This article is a "must read" for any company exploring the idea of getting into franchising other third party distribution methods. It illuminates some of the dominant fallacies as well as some of the untapped possibilities of franchising as a business method.

The Human Edge in Franchising

Managing relationships is a messy and imprecise business—more art than science. This article characterizes the changing nature of this **human** ***relationship at different stages of the franchise*** **business** ***relationship.***

What Makes a World Class Franchisor?

The seven essential characteristics that true world class franchise companies share.

Issues in Conversion Franchising: An Example

Conversion franchising is one of the most powerful business tools ever created for rapid growth and brand building. Here we explore some of the "ins and outs" of conversion franchising, in this instance as applied to the gasoline and convenience retailing industry.

A Conversion Franchising Fable

This is a conversion "what if" that illustrates what could happen when the right combination of vision and resources come together in a retail industry that's ripe for consolidation. It has happened before and it can happen again.

ABOUT JANSSEN ELLISON COMPANY

COMPANY OVERVIEW

Janssen Ellison Company specializes in business growth and marketing disciplines, particularly third-party distribution methods including various forms of franchising, distributorships, joint ventures and innovative business alliances. Services range from strategic opportunity analysis to complete development programs to conflict resolution to innovative marketing campaigns.

The firm was established in 1988 and has served clients in a wide range of industries. Because each client's needs are unique, the firm's philosophy is to approach each assignment with a "clean sheet of paper" instead of a formula, and to take an active, hands-on, role in helping clients meet their business goals.

REPRESENTATIVE CLIENTS

- Avon
- California Pizza Kitchen
- Cash Plus
- Clean'n'Press
- Franchise Consulting Group
- Futurekids
- General Mills
- Greyhound Lines
- Hard Rock Cafe
- IBM
- Marriott
- Miracle-Ear
- Mobil
- SCORE@Kaplan
- Stride Rite Footwear
- Western Auto
- Westinghouse

FOR MORE INFORMATION

Companies or entrepreneurs interested in learning more about how franchising techniques might be applied in their own setting are invited to contact Jean-Louis Janssen at Janssen Ellison Company.

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