

## **CHALLENGING TIMES: CONFLICTS & OPPORTUNITIES**

SYNOPSIS — Challenging times in a franchised industry (in this example, the oil business circa late 1998-early 1999) are breeding grounds for conflicts that have been ill-managed in better times and thus allowed to fester. Challenging times are also a ripe moment for organizational changes — other than downsizing — such as planting and nurturing the seeds of a more entrepreneurial, higher performance culture. From *Oil Focus*, March 1999. By *E. Todd Ellison & Jean-Louis Janssen*.



# CHALLENGING TIMES: CONFLICTS & OPPORTUNITIES

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by E.Todd Ellison and Jean-Louis Janssen



Economic squeezes are often times when long-brewing conflicts burst into flame. All too often, such conflicts can be prevented by thoughtful relationship management. Such times can also be the best times for implementing more entrepreneurial organizational structures and even (perish the thought) growing sales. The retail end of the oil business lately has served as a good case in point.

## **Finding the Beef Inside the Bummers**

Current oil industry realities clearly suggest the need to become better retailers and better managers of the independent marketers who hold the keys to sales volume and brand equity. The ups and downs of gasoline prices hurts, but is no excuse to give away market share to competitors. Lost customers and eroded brand equity are very costly to replace and rebuild. This little sermon, of course, is not news to anybody. Yet from an outside observer's perspective, what rarely seems to make the news are committed efforts to increase retail sales and profits. To

paraphrase a wonderful hamburger commercial from years gone by: "where's the marketing?" That's one side of the opportunities we'll touch upon here.

History teaches us that challenging times like these are full of opportunities in disguise for those who choose to take them. We start by revisiting distribution management.

## **The Entrepreneurship Factor**

Thinned payrolls need to do work that was previously performed by many more people. This means doing things differently (more change — go ahead and cringe). This is the time to plant and nurture the seeds of a more entrepreneurial corporate culture. We know, of course, that many big companies are already committed to becoming more entrepreneurial. Some send managers to seminars and training programs. Some reconfigure their service organizations to try to sell what they had given away in the past. Some attempt to market internal services to the outside world. It's probably too soon to

gauge the results of such efforts, but there are other areas that may more readily yield tangible benefits. By looking at the issue a little differently, there is a way to make a difference to the top and bottom lines.

For companies wishing to truly become more entrepreneurial, the marketing and distribution systems are an excellent starting point. Fuel distribution networks are a form of franchise and techniques borrowed from top franchise companies that can help “entrepreneurialize” distribution system management. It’s much harder to imagine functions like corporate planning and finance being entrepreneurialized, but the distribution system is a natural.

For example, establishing strong accountability links between distribution system management and retail channel performance is one relatively simple way of creating a more entrepreneurial focus.

Another approach is to integrate units providing wholesale/retail support to marketers with the shared service organizations that are typically charged with developing new marketing initiatives. In oil companies, these functions are often highly fragmented, which can result in unnecessarily costly and ineffective channel management and increase friction with marketers, particularly in times like the present.

### **Powering Up the Distribution System**

Other ways to increase revenues and profits by entrepreneurializing the distribution system include crafting more potent relationships with key jobbers/distributors. Regional co-franchise arrangements, for example, can be a way to tap the entrepreneurial energy of proven marketers and generate new revenues for suppliers without increasing overhead. Another direction is to expand relationships with jobbers/distributors to better exploit the marketing potential of product categories like lubricants and propane.

Such efforts can lift both sales volume and profitability without commensurate increases in overhead. But other initiatives can do even more. More formalized franchising initiatives can even provide new sources of revenue and profits through carefully-structured value-added offerings. In the process, they’ll be protecting the distribution system and the brand from competitors who may be more aggressive in promoting flag switching.

What about the mergers? The megamergers we’re seeing in the industry are an outstanding opportunity to make the kinds of changes needed, at a time when organizations and structures are already in flux. While cost reductions and economic clout are all the buzz, it may well

turn out that tweaking the knobs of downstream distribution system management can generate more sales and profits and, equally important in some schools of thought, protect market share and brand value.

There are many ways of beneficially applying franchising methods to distribution systems without going all the way to converting all or part to a business-format franchise. However, each distribution system will represent a unique mix of challenges and opportunities. And each culture will have its own tolerance for innovation and change. Without doing something proactive, however, the likelihood of losing ground increases with every passing month, as does the probability of increasingly acrimonious relationships between suppliers and their marketing networks.

### **Conflict Prevention & Management**

It’s just human nature to look for somebody to blame for one’s troubles, particularly when one’s livelihood is on the line. The current situation in the gasoline and convenience retailing industry is just the sort of environment where problems can move beyond the festering stage and enter the litigation stage, which usually is a lose-lose for both sides. Only the lawyers gain, although the parties with the deepest pockets have the most risk. The danger sig-

nals are starting to increase.

“Let’s just hope it goes away” is a very dangerous and very widespread attitude, although it is certainly easy to understand. Managing longstanding marketer relationships is always a challenge; in tough times it’s even tougher. And shrinking numbers of sales and support personnel just cannot be expected to perform miracles of relationship magic. Naturally, the longer a relationship problem continues unmanaged, the more difficult it is to repair. Often, there’s a role for savvy third-party intervention, and we’re not talking about traditional mediation and arbitration, where the third party may not really understand the industry from both sides or, worse, may take a legalistic slant toward settling disputes.

***Talk, talk, talk: A Good Thing, Under the Circumstances.*** If parties in a dispute are not talking, the situation is far more likely to get worse, rather than better. The concept of “shuttle diplomacy” using third party experts can be very effective in manag-

ing disputes between oil companies and their independent marketers. Our own experience in the field has taught us that each side will vent and share feelings with a respected third party that they cannot or will not communicate with each other. These strong feelings often contain the seeds of resolution that both parties can live with.

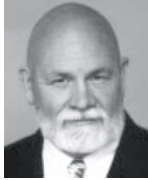
Getting better at conflict prevention and conflict management (they’re really very different processes) is best approached systematically, so that critical problem areas can be identified early. For example, monitoring contractual compliance may be lax or virtually nonexistent, making enforcement of marketer contracts difficult to impossible. Or, it may be that communication with marketers is inadequate in both quality and frequency. Are marketer councils, panels and advisory groups (a very powerful but often misused tool) properly structured and managed? Such processes provide the early warning system for conflicts.

Warnings, however, are often misunderstood or ignored, and the “shoot the messenger” syndrome is still alive and well in many business organizations, large and small. Part of the solution, then, is empowering responsible parties to actually solve problems. Some companies have found that independent firms can be effective at “taking the pulse” of the distribution system periodically and that outside recommendations may be treated differently than those presented internally.

### **The Marketing Payoffs**

Better conflict management and managing the distribution system more entrepreneurially can have significant payoffs in increasing sales, both directly and indirectly. And there is no better time than when economic pressures are high and organizations in a state of flux. ● ● ●

## 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](http://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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