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2014

new ideas for franchising

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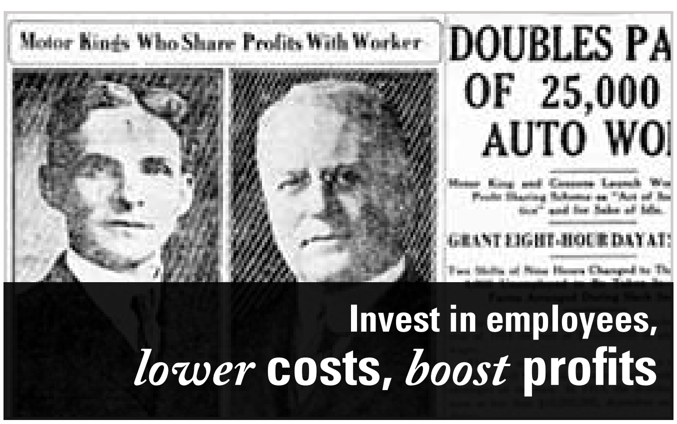
Franchise success secret: *exact replication*



Invest in employees, *lower* costs, *boost* profits

Image from the collections of The Henry Ford (P.D. 652/THF101429)

Baby boomers: Most affluent demographic ***in history***

10 tips for smart borrowers

First ever, franchise management degree

Handyman franchise hits a twofer

about us

Plante Moran accountants, auditors, and consultants serve more than 2,000+ clients in the service industry. They have hands-on experience in the industry from prior positions and are well prepared to help franchisors and multi-unit franchisees with A+ skills, reliable delivery, and integrated services. Because the firm is one of the largest in the nation, clients can depend on a breadth and depth of service to help them compete and grow. Stay connected to the firm and receive more of its publications, visit: **subscribe.plantemoran.com.**

contributors

The International Franchise Association is the oldest and largest organization representing franchising worldwide. Celebrating more than 50 years of excellence, education and advocacy, IFA works through its government relations and public policy, media relations and educational programs to protect, enhance and promote franchising. Through its campaign Franchising: Building Local Businesses, One Opportunity at a Time, IFA promotes the economic impact of the more than 825,000 franchise establishments, which support nearly 18 million jobs and $2.1 trillion of economic output for the U.S. economy. Connect with IFA at **IFA.org.**

The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. middle market economy. The center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the center by contacting **middlemarketcenter@fisher.osu.edu.**

Through its franchise finance business, GE Capital is a leading lender for the U.S. restaurant and hospitality franchise finance markets. For more information, visit **http://www.gefranchisefinance.com**

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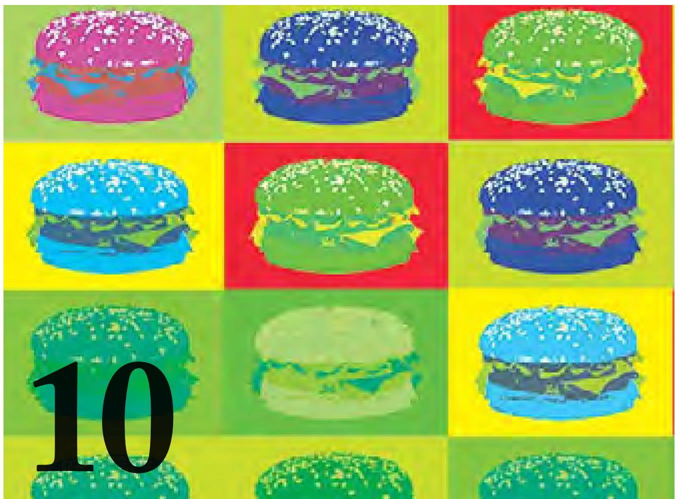
NEW IDEAS



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Some of the rules won't make sense to you but ...
Why does almost every franchise agreement emphasize the need to exactly follow the franchisor's business template? Because experience and research proves going off template means a 50 percent chance of failure.

Image from the collections of The Henry Ford (P.D. 652/THF101429)

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Singing behind the counter
It's always been assumed that happy employees are good for business. The good jobs theory goes further explaining how you can raise wages, keep prices low, and increase profits. Sounds too good to be true, but there is proof.

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C-A-N you hear me?
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Let numbers do the talking. In 2013, the industry created 10 percent of the nation's new jobs and 11,000 new franchise units opened while fitness, personal care, and property restoration chains took their places in the list of top 10 franchisors.

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A leader in the area of franchise finance talks about commercial financing, emphasizing that the way a company presents itself to a lender is critical. Read his 10 tips for smart borrowers.

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Meet AGNES. Her full name is "age gain now empathy system." And she is a suit calibrated to approximate the motor and visual abilities, flexibility, dexterity, and strength of people in their mid-70s.

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This franchisor ends up on two trending lists because it offers the opportunity to run your business from home and hands you a brand that appeals to the burgeoning market of seniors who need help staying in their homes.

26 **Researchers trade analysis for data**

Having spent 10 years studying data from one of the top franchisors, the researchers at Brigham Young University's Marriott School offer to analyze franchise templates in exchange for access to data.

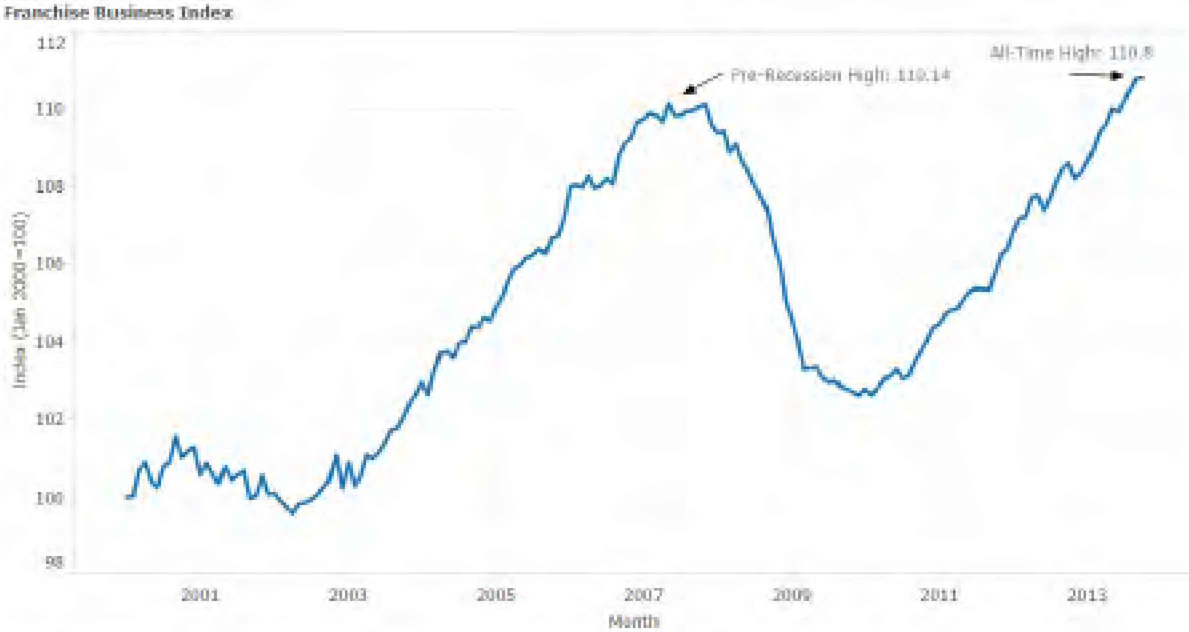
2013
a record setting year

> The Franchise Business Index reached an all-time high in 2013, topping the record set in 2007.

The franchising sector outpaced the overall U.S. economy in business formation and job growth in 2013, creating an estimated 11,000 new establishments and 10 percent of the nation's new jobs. In fact, the Franchise Business Index reached an all-time high last year, topping the record set in 2007.

"The franchise business model remains the best and most proven vehicle to quickly grow and scale a small business," International Franchise Association (IFA) president and CEO Steve Caldeira reminds.

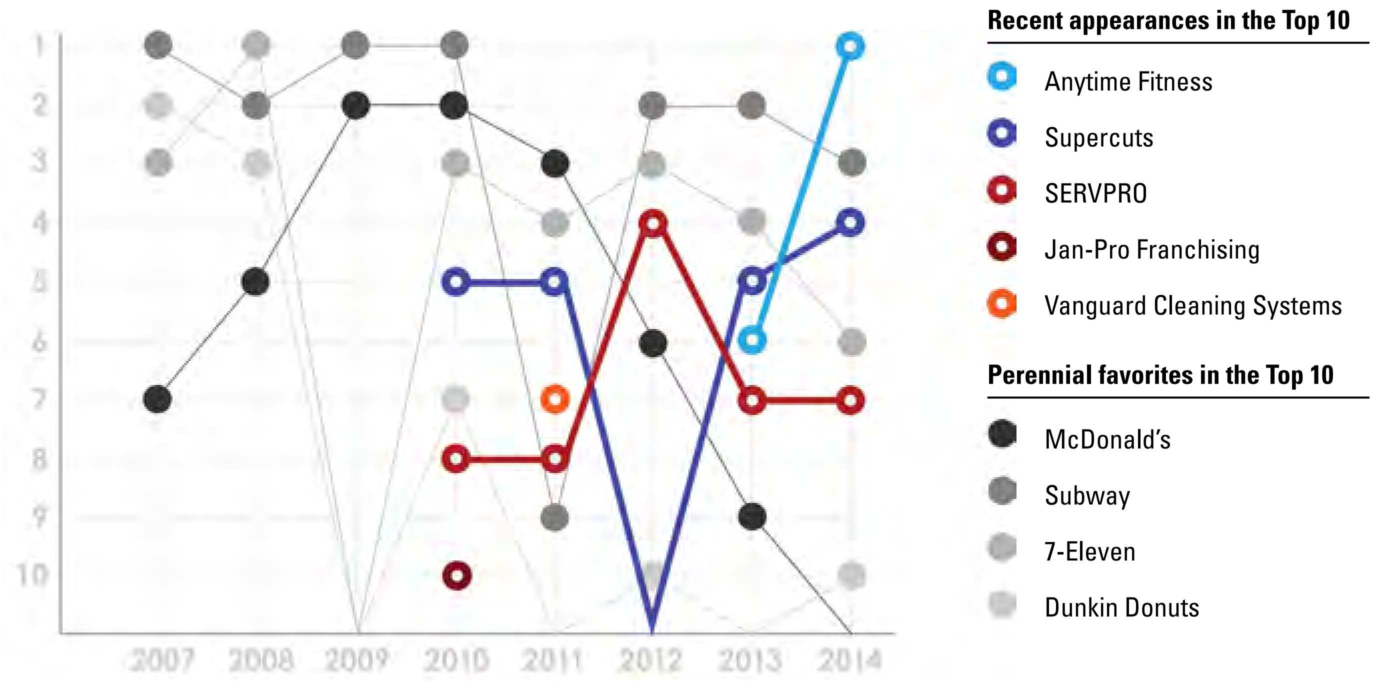
Franchise Business Index



IFA' Franchise Business Index shows the state of the franchise sector on a monthly basis.

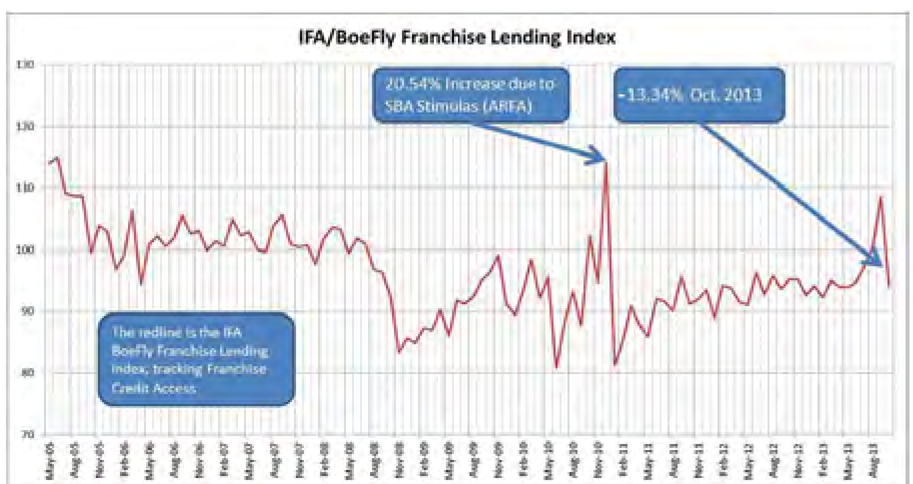
New kids on the block:

Volatility in top 10 franchise rankings shows growth and competiton



Current challenges

Despite the continued success and growth of franchising, a recent IFA survey found 68 percent of franchisors and 42 percent of franchisees report that access to capital was impeding their ability to expand.



How to secure commercial financing:

10 tips for smart borrowers

By Agustin Carcoba, leader, GE Capital, franchise finance

Franchisees have worked hard, made smart choices, and navigated many challenges to get to where they are today.

WHAT THEY NEED NOW IS CAPITAL.

The good news for potential borrowers is that lenders are actively seeking new opportunities to put their money to work.

Drawing on its experience with thousands of borrowers across multiple industries nationwide, GE Capital set out to answer a central question: What do the smartest borrowers do to make their quest for capital more successful?

While every situation is unique, one clear differentiator did emerge: The way a company presents itself to a lender is critical. It may surprise franchise owners to learn that there are factors beyond a company's cash flow and credit history that have a big impact on the outcome of a credit application. The following top 10 tips are aimed at helping borrowers be more successful when applying for credit.

1. Reach out early

What's the right time to approach a lender? The best time is before you need capital. Build a relationship and educate a potential lender about your business prior to applying for a loan. If you wait until you need money in a hurry, financing options may be limited.

2. Treat the lender as a strategic supplier

Relationships matter. You and your lender must work with a set of shared goals. Smart borrowers take the lender's perspective into account while trying to find two-sided solutions when financing challenges arise.

3. Truth trumps: Be transparent

Trust underlies all credit relationships so be upfront with a lender about any challenges. Don't allow a lender to invest time and resources into the underwriting process only to find that there are discrepancies in the information provided. Smart borrowers see financing challenges as opportunities to demonstrate their grasp of the issues facing their business.

4. Tell a compelling story

Tell your story in a way that highlights successes and acknowledges challenges. Create a forward-looking business plan and organize all financial statements. Lenders understand the impact of the economic downturn on businesses. They need to see how you overcame obstacles and solved problems — and how you plan to move forward now.

5. Sweat the small stuff: Get documents in order

Every interaction with a potential lender carries a lot of weight. Mistakes, even if they seem inconsequential, can cause the lender to lose confidence in your business. That's why it's important to understand all the key terms in covenants, contracts, and credit documents. Be prepared to show how your company will meet its commitments. One effective way to facilitate the process is to put a cover letter on the business plan that includes important dates and obligations.

How to secure commercial financing:

10 tips for smart borrowers

(Continued)

6. Find a lender who understands your industry

An industry-savvy lender will have an understanding of a reasonable business plan as well as the overall climate in this industry. That knowledge will be helpful in structuring the financing solution and maximizing the credit available to the borrower.

7. Communicate, communicate, communicate

A lack of communication can damage your financing prospects. From day-to-day details to big changes, keep the lender informed. If an unexpected event occurs — say, a natural disaster that impacts the viability of one unit — contact the lender as soon as possible, preferably before it hits the news. Be prepared to explain its impact on your ability to meet your financial obligations.

8. Think like a lender

Every business leader should think with the mindset of both a borrower and a lender to get the most out of the relationship. Whether the discussion involves a credit line increase or a new competitive challenge, understanding the lender's thought process and considerations will lead to a more fruitful interaction. Smart borrowers have the foresight to contact their lenders 18 months before the loan comes due to discuss adjustments.

9. Know competitors' financing structures

Learn about the financing structures of your peers in the franchise industry. By taking the time to do this homework, borrowers can improve their discussions with lenders while increasing the chances of finding a workable financing solution.

10. Optimize cash flow

Cash flow is king. A lender needs to understand all monies coming in and out of the business as well as payment histories. To impress the lender, demonstrate the ways you're trying to increase cash management efficiencies.

CONCLUSION

Smart borrowers can make their quest for capital more successful by being mindful of how they present themselves to lenders. As you can see, there are many factors beyond cash flow and credit history that have a big impact on the outcome of a credit application.

With careful preparation, borrowers that work in a spirit of collaboration with their lenders can boost their chances of success. Look for lenders that are flexible and have enough capital on hand to support your future growth. That will help maximize the amount of financing they can extend to you.

*GE Capital, Franchise Finance is a leading lender for the U.S. franchise finance market via direct sales and portfolio acquisitions. The business specializes in financing mid-market operators with multiple units in the restaurant and hospitality industries. With more than 30 years of experience and over $7 billion in served assets, it provides financing to more than 2,000 customers and 14,000 properties. For more information, visit **http://www.gefranchisefinance.com** or follow company news via Twitter (**http://twitter.com/GELendLease**).*

Franchise industry works closely with Northwood University to prepare the next generation of business owners

At the 53rd International Franchise Association (IFA) Annual Conference in Las Vegas last spring, former Secretary of State Condoleezza Rice opened the session by updating the franchisors and franchisees on the economy, national security, and the general outlook for America.

As she ended her presentation and applause faded, one of the next agenda items was the introduction of the nation's first bachelor's degree program in franchise management at Northwood University with campuses in Michigan, Florida, and Texas, and program centers in Switzerland, China, Malaysia, and Sri Lanka.

The IFA heralded the historic launch and the school's efforts. IFA Educational Foundation President John Reynolds said: "We are looking forward to working with the Northwood University faculty and staff on this program which provides a pathway for young people, really for people of all ages, to learn about the franchising industry and the many career paths and opportunities it affords."

Jim Hop, chair of the new Northwood program, says it was people in the field of franchising who championed the new offering, in particular, Greg Longe who has a son at the school and a 30-year history in franchising, serving as CEO or president of 11 different franchisors.

"We realized that Northwood has a history of teaching people to be self-employed. The school has a nationally recognized program for car dealerships and other programs like their hospitality program," Longe begins his story. "From my years in franchising, I know that there is a learning curve and the new major in franchise management will better prepare people to work in the industry."

Northwood consulted alumni, industry experts, and the IFA to design the program. Course work includes all of the basics included in the entrepreneurship program and franchise specific courses in areas such as franchise legal issues and domestic and international franchise models.

"There is a difference between entrepreneurship and franchising," says Longe, who points out that entrepreneurs are good with ideas but often aren't suited to building a business. "They always want to be tinkering with the plan, where the franchisor wants to be building a business."

It is estimated that franchising contributes more than $2 trillion to the global economy, and it continues to grow. "There a lot of multi-unit owners and franchisors who need a place to send their sons and daughters to prepare them for their place in the family business. Northwood is that place. My one son just graduated from Northwood and my second son is a freshman today," says Longe.

Melanie Bergeron, an IFA officer and chair of Two Men and a Truck, also indicates her son has Northwood on his short list. And rumor has it that four children of a noted franchisor are attending Northwood.

Is Northwood following in the footsteps of Harvard where industrialists used to send their children to carry on their legacy? "No. No," Hop assures. "This program is for anyone interested in franchising." But connections to so many leaders in franchising can be good for the program and the industry.

Currently the franchise major is offered only on Northwood's mid-Michigan campus, but will soon be available at the Florida campus and then the Texas campus.

Franchisee success is based on exact

Replication

The franchisee that departs from the franchisor's business model can venture into dangerous territory. That is probably why some franchisors begin franchisee relationships with agreements like this one:

THE FRANCHISEE AGREEMENT

> **"You acknowledge that you know less than we do about (our product) and the operation of the company. You promise to operate your (franchise location) exactly according to the rules we set down in the apprenticeship agreement and the confidential book of promises … Some of the rules won't make sense to you. That isn't important. There are bad traps in the operation of a (franchise like you are opening) which are tricky and strong. Tinkering with any part of the system can badly weaken your business … It is unimportant if you believe that holding to these promises is weakening your company. We are talking about a simple oath, nothing more or less, your personal promise, you giving your word to us."**

Sounds pretty harsh, but experienced franchisors and academics alike say exactly following a proven business plan is essential to the success of a franchisee.

"A new franchisee has to strictly follow our operations manual and systems set in place," explains Melanie Bergeron, an International Franchise Association (IFA) officer and board chair of Two Men and a Truck. "In the prospect phase, before they become a franchisee, we let them know that this is a five-year marriage (the length of our franchise agreement) and we expect them to follow the system. Prospects are attracted to Two Men and a Truck because they want to invest in a proven system. A successful prospect will be looking for direction and willing to follow. We give them the brand, systems, and processes and they implement them."

DATA EMPHASIZES THE NEED FOR EXACT REPLICATION

Robert Jensen, a professor at Brigham Young University's Marriott School, has the research to back up the importance of exactly replicating a franchisor's template.

Over an 11-year period, Jensen was part of a research team that studied a large franchise firm that serves customers in the home office/small office space providing mailbox, packing, and copying services. Franchise headquarters provided the franchisees a very specific mix of products and indicated the importance of each by specifying exactly how much revenue should be derived from each product.

Even after compensating for variables like outlet size, past performance, recent ownership transfers, and local market environments, the researchers found that the more a unit deviated from the recommended product mix, the higher risk that it would fail. In fact, they found that a location with one standard deviation from the standard product mix doubled its likelihood of failure.

The same went for outlets that decided to add nonstandard products to their mix. The higher percentage of revenue from the nonstandard products the more likelihood of failing.

SUCCESS DRIVERS AND THE SECRET SAUCE

Why is exact replication so important? It has a little to do with the secret sauce the franchisor builds into its business plan. "The franchisor is an entrepreneur and has gone through a trial and error process. He might not really know what makes his business plan successful, but when you depart from the template, you have a real possibility of messing with the drivers of success," cautions Jensen.

Also the support of the franchisor is based on an average unit and when a franchisee departs from the model, it takes the unit further from the average and makes it more difficult to introduce new products or leverage training opportunities offered by the franchisor.

Brand management is also an essential part of the template. "Consistency is what makes a brand. People expect the same things from a chain no matter the location. So when the operations manual of a pizza franchisee says put 50 pieces of pepperoni on the large pizza, you do it every time," Jensen adds.

Some units might skimp on what they offer the customer. For instance, to cut costs a pizza franchise could put only 35 pieces of pepperoni on a large pizza compared to the prescribed 50. But his freeloading hurts the entire brand.

On the other hand, the unit that puts 60 pieces of pepperoni on its large pie to please customers can also damage the brand by setting up its customers for disappointment if they go to another store in the chain that follows the template.

ADAPTATION CAN LEAD TO A NEGATIVE FEEDBACK LOOK

Jensen's research indicates that the more often a franchisee departs from the franchisor's plan the harder it is to get back on track. Cascading adaptations can create their own negative feedback loop that is difficult to unwind.

Said another way, the more the franchisee deviates from the original business plan, the less it can refer to the source template for diagnosis and guidance.

How does a franchisor impress its entrepreneurial franchisees with the importance of replication? An easy-to-follow plan is a good start, however, it can be hard to strip down the plan to core factors because of the secret sauce factor. Jensen calls on franchisors to humbly admit that they don't totally understand what drives their success, but the success is real. And in fact there is real honesty in the agreement that says: "Some of the rules won't make sense to you. That isn't important."

The off-template franchisee not only jeopardizes its chance for success, but it also loses the institutional knowledge of other outlet owners or headquarters – the people that might be able to help them find solutions.

Franchisors like Two Men and a Truck encourage their franchisees to share best practices. In fact headquarters circulates revenue and expense statements for all of the units and encourages those who want better results to call those who are excelling and ask about their tactics.

History indicates that franchisees in low-income, sparsely populated areas are most apt to go off template. They begin to adapt in response to their customers, but they are making their adaptation based on a small sample.

CAN FRANCHISORS USE DATA ANALYTICS TO HELP FRANCHISEES?

Could franchisors use data analytics to help struggling franchisees? Jensen isn't sure of the legal issues, but he does know that using data to prove the validity of a template is an effective way of convincing doubting Thomases to stick to a template. For instance, Rank Xerox, the European arm of Xerox, Inc. found that using data to prove the success of units that stayed on template was the key for getting additional units to copy the template exactly. Without that proof the company couldn't get units to conform.

Interestingly, even when a franchise goes international, sticking to the franchisor's established template regardless of cultural differences is essential.

In the case of the mailbox, packing, and copying services franchise, the owners of master agreements in Japan and Israel had sound reasons to immediately adapt the franchisor's template.

In Japan, public mailboxes are often used for personal communication and in Israel package delivery takes only a few hours from the farthest point north to the farthest point south. With these factors in mind, the owners of the master agreements in those countries adapted the franchisor's template before even opening their first units. The result: they failed. When they returned to the template they began seeing success.

According to Jensen, best practice for going international is to stick to the template for the first two years before making modifications.

Both Jensen, the academic, and Bergeron, the franchisor, agree, however, that there is room for innovative franchisees. Breakfast at McDonald's, the Big Mac, and the $5-dollar foot long at Subway were ideas of franchisees.

In these cases, the franchisee called in the franchisor to help test the new product. Good communication between franchisor and franchisee is essential according to Bergeron. She encourages her franchisees to offer new ideas like using pink packing boxes during breast cancer awareness month which was adopted across the chain.

And she insists there is room for franchisees to "do their own thing" when it comes to incentivizing their employees and developing rapport with the community they serve.

And Jensen reminds us that only franchisees that are thriving should entertain adaptations. Adaptation in response to poor results is likely to make the results even worse.

Supply data, get insights

Robb Jensen, a professor at Brigham Young University's Marriott School, and his team would like to work with franchisors on more research of interest to the industry. If you have data and are willing to share it, please contact Prof. Jensen at 801.787.3438 or robertjensen@byu.edu.

The research team is willing to do some of the analytics necessary to prove the success of the franchisor's template, and franchisors can be assured that any data used in the research will be kept confidential. If the results are published it will not divulge company secrets and the franchisor will have an opportunity to vet all articles.

Some other interesting findings from Jensen and his colleagues:

- **Franchise outlets that deviate from the model often never give it a chance. They start modifying the plan right from the start.**
- **Franchise outlets of greater size are less likely to exit.**
- **Franchise outlets that went through an ownership change are less likely to fail because the new owners often begin operations by following the template.**
- **Per capita income is more important to success than population numbers.**

THE GOOD JOBS STRATEGY PROVES A BOON FOR INVESTORS

THE DETROIT JOURNAL

LAST EDITION

THIRTY-FIRST YEAR. DETROIT, MICHIGAN, MONDAY, JANUARY 5, 1914.

HENRY FORD GIVES $10,000,000 IN 1914 PROFITS TO HIS EMPLOYES

HOUSES SWEPT INTO ATLANTIC BY STORM; CREW OF 32 DROWNS

SUMMER RESORT COAST IN RUIN;

Seabright, N. J., Is Worst Hit Along Shore—Town Is Desolate With Men, Women and Children Aiding In Relief.

Acres of Land Are Sucked Into the Sea Along With Buildings — Total Loss $2,000,000 — Some Resorts May Not Rebuild.

NATION-WIDE STRIKE IS BEING DISCUSSED BY LABOR LEADERS

Moyer Declares Gompers Will Call Conference to Discuss Great Sympathetic Movement In Connection With Copper and Coal Miners' Strikes.

GOV. FERRIS IS ON WAY TO CALUMET

State Executive Enters Copper Zone as Federal Conciliator Densmore Leaves Declaring Inability to Bring Peace Because of Operators' Attitude.

STRIKE CONDITIONS.

Motor Kings Who Share Profits With Worker

HENRY FORD. JAMES COUZENS.

6 JURORS PLOTTED TO FREE GLINNAN, CHARGES SHEPHERD

OUST MRS. JONES FROM COLORADO STRIKE REGION

STATE OFFICERS SAY WOMAN INCITES OUTLAWRY.

CONNOLLY JAILS "SPEED MANIAC"

Prosecutor Had Sleuths Trail Men Excused By Phelan Over Protests of Alderman's Defense.

Men All of Opinion That Aldermen Were Grafters, Anyway—Some Had It In for Detective Burns.

SCHOOLS LACK BEAUTY

Some More Snow and Some More Slush Are Predicted for Tuesday

DOUBLES PAY OF 25,000 IN AUTO WORKS

Motor King and Couzens Launch World's Biggest Profit Sharing Scheme as "Act of Social Justice" and for Sake of Idle.

GRANT EIGHT-HOUR DAY AT $5 WAGE

Two Shifts of Nine Hours Changed to Three of Eight, 4,000 Unemployed to Be Taken In—Jobs on Farms Arranged During Slack Season.

The Ford Motor Co. will give to its employes during the year of 1914 the sum of $10,000,000 in addition to their wages.

This will not be a wage increase, but a distribution of profits. It will be added, however, semi-monthly, to the pay envelopes of the men. In 1915, the distribution might be more or less than $10,000,000, dependent on business conditions.

A minimum wage of $5 a day will be established by the addition of the profit distribution to wages. The present minimum wage in the great motor car factory is $2.34. From next Monday to the end of the year, even the lowliest laborer and the man who merely sweeps the floors, will get at least $5 a day.

Further, the 8-hour day is instituted. At present the Ford factory has two 9-hour shifts. It now will install three 8-hour shifts, the factory working continuously.

Between 25,000 and 30,000 men will benefit greatly by the profit distribution.

Fifteen thousand of them now work in the huge factory out Woodward avenue. Four thousand more men are to be hired there during the present month and will come under the profit-sharing plan. The others who will share in the rich division number 7,000 to 8,000 and are scattered all over the world, working in Ford branches in Canada, Mexico, South America, Europe, Asia, Africa and the Antipodes, even the Fiji Islands being included.

Image from the collections of The Henry Ford (P.D. 652/THF101429)

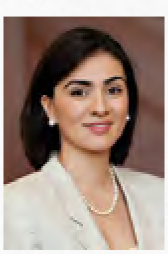
On Jan. 5, 1914, Henry Ford shocked the world when he announced he was doubling the wages of his assembly-line workers to $5 for an eight-hour day.

Headlines estimated that the industrialist was giving his workers $10 million of the company's profits.

Why such a historic, costly, and dramatic nod to labor? Absenteeism and high turnover were hobbling productivity and cutting into profits at his plant. The $5-a-day plan, however, changed all of that. Production soared 50 percent or more. Daily absenteeism dropped from 10 percent to under 1 percent. Replacement hiring dropped from 53,000 in 1913 to just 2,000 by 1915, even though Ford's workforce had grown substantially.

"Greatest cost-cutting move ever made," Ford later recalled.

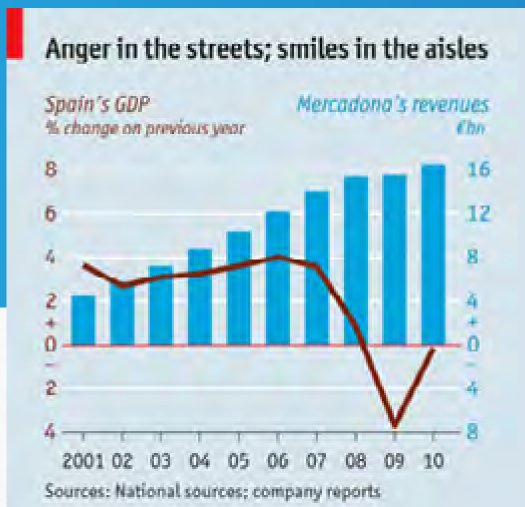
Fast forward 100 years and a professor at MIT's Sloan School of Management has a similar message for the service industry, including retailers and fast food restaurants. She insists that customer demand for low prices doesn't have to translate into low wages for workers.


Professor Zeynep Ton

Professor Zeynep Ton has formulated a jobs strategy that is good for workers, customers, and investors. A supply chain

"Greatest cost-cutting move ever made."

—Henry Ford



Even as Mercadona reduced its prices by **10 percent,** sales figures increased.

expert, she backed into this strategy. She realized that getting products to the loading dock was not enough. Employees were essential for managing products inside the stores so that customers could find the products. Employees were also essential for informing the customers about the products. She proves this point with a comparison between Walmart and Mercadona, Spain's largest supermarket chain.

To cut costs during the recession, both reduced the variety of products they offered.

Walmart customers were annoyed when their local store stopped carrying their favorite brand of potato chips or toilet paper. Sales dropped, and Walmart's chief merchandising officer left the company.

On the other hand, Mercadona customers were unfazed when they couldn't find their favorite product, because the staff was trained to recommend a replacement. Even as Mercadona reduced it prices by 10 percent, sales figures increased.

Why did Mercadona outperform Walmart? It was Mercadona's approach to workers not merely as a cost, but a potential source of profits. The 63,500 employees of the Spanish chain are on permanent contracts (with bonuses), work regular hours, and receive 20 times more training than the staff of an average American retailer.

This combination makes them more productive, according to Ton, and data backs her up. Sales per Mercadona employee is 18 percent higher than at other Spanish supermarkets, and staff turnover is only 4 percent a year.

To get this mix of low prices for customers, good wages for employees, and an exceptional return for investors, Ton suggests replicating what she calls the good jobs strategy. The strategy includes four factors. "It's a package deal," says Ton. "One will not work without the other." The factors are:

1. **Fewer, but better, choices for customers** (Think Southwest Airlines, with its no-frills flights, limited routes, and gung-ho employees; or Trader Joe's, which carries fewer items than most supermarkets but has turned that into a competitive advantage, in part because every employee is an expert on what the store does stock).
2. **Rigid adherence to standardization in routine processes,** while letting employees use their own judgment about everything else.
3. **Cross-training for employees** so they can do each other's jobs when needed.
4. **Slack time for staff** so that they can spend more time with customers or follow up on their ideas for improvements

The American poster child for this four-part strategy is Costco, ranked among the top five retailers in the United States for client satisfaction by Consumer Reports.

Average pay for a Costco worker is $20.89 an hour, substantially higher than pay at Sam's Club (owned by Walmart), its closest competitor. And the turnover rate for Costco is 5.5 percent for employees who stay with the company more than a year, about a quarter of the average for the retail industry. Costco sales per square foot are almost 70 percent higher than Sam's Club and sales per employee nearly double. Costco stock has gone up six-fold since mid-2003 vs. a gain of 40 percent for Walmart shares over the same period.

Will the good jobs strategy work outside of retail? "If it works in low-cost retail, it is possible pretty much anywhere," says Ton.

Then she talks about the In-N-Out Burger chain on the West Coast. The chain keeps overhead low by limiting its offerings to hamburgers, cheeseburgers, and milkshakes. It has one of the lowest turnover rates in the fast food industry and offers a starting wage of $10.50 an hour, significantly higher than McDonald's.

If the idea of increased profits isn't enough to convince people that the good jobs strategy works, advocates also point out that it relieves the managerial stress of dealing day after day with the operational and services problems created by ever changing and poorly prepared employees.

Just how important is your sales staff?

To further support the good jobs strategy, Marshall Fisher of the Wharton School, who often conducts research with Ton, points out how reducing staff can end in disaster. In 2007, Circuit City fired more than 3,000 of its most experienced salespeople, replacing them with newer workers whom it could pay less. Sales dropped and Circuit City was bankrupt within a couple of years.

When Bob Nardelli took over Home Depot in 2000, he reduced the number of salespeople on the floor and turned many full-time jobs into part-time ones. Customers missed the useful advice they were accustomed to. The company's customer-service ratings plummeted, and its sales growth stalled.

"If [the good jobs strategy] works in low-cost retail, it is possible pretty much **anywhere**."

STRATEGY FOR SUCCESS:

please the MATURE CONSUMER

If you have been thinking about how to better serve the 60-plus consumer, but don't know exactly where to turn for answers, **join the crowd.**

Professors Norbert Schwarz and Carolyn Yoon of the Stephen M. Ross School of Business, University of Michigan, wrote a book on the aging consumer and they decry the dearth of research they found.

Schwarz and Yoon suggest that given the size of the aging population, not having more information on the way they select products and services is going to become a real issue for retailers and all of the businesses that serve senior citizens.

The Great Recession might be one of the reasons companies curtailed their research on the habits of the aging consumer. JWT, one of the world's best-known marketing

communications brands, started its Mature Market Group in the early 90s to create leads for senior housing providers; it was rebranded to JWT BOOM in 2006 when the company decided to broaden its market to pharma, retail, and packaged goods. But the housing crisis was too much for it and it closed in 2009.

There is agreement, however, that baby boomers or the newly retired cannot be overlooked. They are the largest, most affluent demographic in history, with trillions in spending money. Put a different way, the people over 50 in the United States own 80 percent of the nation's financial assets and 50 percent of the discretionary income. And they are going to be a dominant factor for the rest of the century because of falling birthrates and increasing longevity. The senior group is growing at a rate of 2.6 percent a year, considerably faster than the current 1.2 percent annual growth in the population as a whole. Increasing even faster at 4 percent a year is the 80 years and older group.

LONGEVITY CHANGES THE EQUATION

In 2010, the mature consumer spent $87 billion on new cars compared to $70 billion spent by those under 50. Yet when Bankrate.com recently published a list of the seven best cars for retirees, the consumer finance services company complained about how hard it was to get the needed information. "Carmakers don't target seniors," Bankrate.com explained. "Instead they invest their money in appealing to buyers in the 18-45 age range."

That 18-45 focus is based on an old theory that if you use your advertising dollars to engage a customer in that age range you'll get a better return on your investment because you will have them for a lifetime. Faulty reasoning, says Lori Bitter, former president of JWT Boom, and now president of her own firm focused on the mature consumer. "Today if you get a recently retired person to buy your products, you can

anticipate that the relationship will last at least 20 more years."

According to Bitter, when courting the business of mature consumers, it is important to realize that they are different. "They are more centered and outward focused like in Maslow's hierarchy of needs, they are moving closer to self-actualization."

Senior care providers agree with Bitter, in a collection of articles for seniors, their family members, and caregivers, they point out that the mature consumer wants to couple longevity and quality of life. To achieve that quality it is important to provide safety and connectivity as well as opportunities to contribute and leave a legacy.

MORE SPECIFICS ON THE MATURE CONSUMER

A recent study of more than 3,000 mature consumers gave more specifics. They seek quality, are loyal to brands, and are not particularly price sensitive. In fact the wealthier mature consumers tend to favor quality over quantity and indulge in food, drink, clothing, and high end cars.

Mature consumers in general don't like to navigate big stores or reach too low or too high for products. But shopping is a core weekday activity and a social outing so they want personal attention. A chatty cashier is perfect.

They are hesitant to take advantage of promotions like two-for-one because it means buying more than they can actually use before the expiration date. Fashioning promotions and advertising that appeals to all ages is hard, according to Bitter. She talks about focusing on the product, not the people like when Apple introduced the iPod. The ads featured silhouettes and what they all shared was a love of music. It appealed to all ages and alienated none. It was age neutral.

A recent study found that the mature consumer often has a negative view of advertising, finding it too loud and too focused on young people and rock music. The mature shopper wants to have retailers understand the realities of aging, but they don't want to be treated as old.

MEET AGNES

To better understand the social and physical implications of aging, the AgeLab at MIT has developed an AGNES suit calibrated to approximate the motor and visual abilities, flexibility, dexterity, and strength of people in their mid-70s.

AGNES is short for "age gain now empathy system."

The suit is used in various environments like stores, public transportation, and workplaces to gain a better understanding of the physical challenges associated with aging.

Mercedes, Ford, and Volkswagen use similar "third age" suits to mimic the physical limitations of age to help them design cars for older drivers.

Be adroit, the researchers advise. Think the high end jewelry ads that suggest handing down a timepiece to a grandchild. Use pictures of people approximately 10 years older than your target group. And be authentic. Young and old alike are listening to 90-year-old Lee and Morty Kaufmann talk about the secrets of their happy union and the convenience of Swiffer cleaning products.

Be mindful, too, that product packaging should be easy to open, and labels, prices, and directions big enough to read. More than half of the consumers in a survey said they could not read labels even when wearing their glasses or contacts. "When I buy shampoo there is a big logo of the company and not much else," was a common complaint. Mature consumers like to be informed and they often consult the Internet for background before making purchases.

As the number of mature consumers grows, it is essential to adjust your business strategies to accommodate them. With this in mind, a franchisor has The Grandma Rule: Treat everyone the way you would want your Grandma treated. Another rule could be: collaborate with your aging customers to figure out what best suits them. Collaboration is often the basis for innovative solutions.

The Grandma Rule:
Treat everyone the way you would want your Grandma treated.

Handyman franchisor **hits the sweet spot** in more ways than one

HandyPro International LLC, a franchise providing home repairs, is well positioned to attract franchisees and at the same time ensure those franchisees success by focusing on the burgeoning market of mature consumers.

Looking at factors like financial strength, stability, and growth, in January 2014 Entrepreneur Magazine placed HandyPro on its list of top franchise companies and named it number one in providing handyman services.

What did Entrepreneur see in HandyPro? Perhaps it was the chain's focus on the fastest growing market, the mature consumer.

"In addition to traditional handyman services, we have expanded our business model to include home modification services to help seniors stay in their homes," explains HandyPro CEO and founder, Keith A. Paul.

HandyPro CEO and founder

Keith A. Paul

"Widening doorways, putting in ramps – it gives them freedom. And it is really, really rewarding. They act like we've given them a Mercedes," describes Paul.

Riding another trend, HandyPro appeals to those who want the flexibility and low overhead of working from home. This year, Home Business Magazine ranked HandyPro among the 50+ "trendy" home-based businesses. This is another growing market. In fact, it is estimated that someone in America is starting a new home-based business every 12 seconds.

This year, Home Business Magazine ranked HandyPro among the 50+ "trendy" home-based businesses.

In 1993, Keith and his wife, Deb, started a home improvement referral service that was something like the current Angie's List. By 1996, they decided to start their own handyman business because of the high demand and difficulty in locating credible ones.

When it grew big enough to keep 10 handymen busy, they decided to share their business template and began offering franchises. They now have franchises in 33 locations, mostly east of the Mississippi.

Like many franchisors, HandyPro has a service code that ensures the good name of the brand. The code emphasizes predictability – be on time, promptly return phone calls, provide estimates and stick to them, do what you say you will do.

"Research has shown that contractors are late or don't bother to show up at all 30 to 40 percent of the time. Those that are considered professionals keep their promises," the code points out.

HandyPro continues to provide its franchisees with support so that they can live up to the code. The chain recently introduced craftsmen tablets for scheduling, estimating, and business management software. For branding, they also began providing logos for the chain's service vans.

As a result, franchisees are well prepared for the growth expected in the home business and mature consumer markets and together they are strengthening the brand.

HandyPro has a service code that ensures the good name of the brand by emphasizing predictability.


HANDYPRO
your trusted handyman

Communication and collaboration can grow an ***even stronger*** franchise industry

As we worked with industry leaders, academics, and the International Franchise Association (IFA) to compile these "new ideas" for you, we were constantly reminded of that old adage that the franchise industry is all about relationships.

Prof. Robert Jensen's research on replication emphatically documents the yin and yang of franchising. The franchisor has to be willing to share its brand, model, and processes, and the franchisee has to be willing to follow the franchisor's template exactly even when it doesn't seem logical.

The lure of improving profits by tweaking the template is understandable especially when a unit is struggling, but it has been proven time and again that local adaptation weakens the unit and can undermine the brand.

We suggest that franchisors do everything they can to prove that they are constantly perfecting their template. Afterall, the franchisees are paying royalties and fees for a brand and a business plan that will make them successful. At the same time, the franchisor must remain open to new ideas from their franchisees. Remember it was a franchisee that came up with the iconic Big Mac.

Collaboration between franchisors and franchisees is more important now than ever. They need to work together on strategies that will help them position themselves in a market dominated by mature consumers.

The senior market, which already has 80 percent of the nation's financial assets, will be growing at a rate of 2.6 percent a year, considerably faster than the current 1.2 percent annual growth in the population. And the over-65 group is in better health and will live longer than previous generations.

It's going to take a gloved hand to deal with this group, however, a researcher puts it this way: "Mature consumers want and expect a sympathetic understanding of the realities of age, but they do not want to be treated as old or elderly."

Another factor that franchisors and franchisees can address together is the move to increase the minimum wage. Franchisors can learn lessons from successful retailers like Costco and Trader Joe's and develop templates that better use resources so that the higher wages are possible.

The franchise industry is well positioned to take on these and other challenges. The very basis of the industry is strong and growing stronger. The model that holds franchisor and franchisee together is a successful mix of "secret sauce," practical experience, and a strong desire to build a business. As advisors, we see that every day and respect that.

Mark R. Fleischer
Plante Moran
Franchise industry practice leader

Talk to us.

Please reach out to one of the leaders on our franchising team to discuss how to budget for new ideas, how to implement them, and how to introduce them to your stakeholders.

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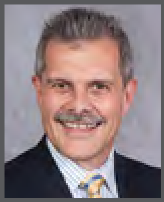

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If you would like to receive more insights from our franchising team, go to **subscribe.plantemoran.com.**

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