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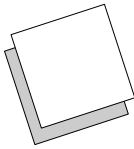
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Food service franchisors and their co-branding methods

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Abstract *The current paper describes various co-branding methods that are available to franchisors and franchisees. The paper also presents an exploratory study that provides some insight into the activities in which franchisors in the food service industry may be willing to engage, in collaboration with other firms, when entering and maintaining co-branding relationships. A sample of International Franchise Association (IFA) members was selected for the survey.*

Introduction

As Fred DeLuca, co-founder of Subway Sandwich Shops, commented, “it’s not the same old equations. McDonald’s are going into Wal-Marts. Subway Sandwich Shops are going into convenience stores” (Runge, 1996, p. 17). Once considered a saturated market in the USA, food service franchises now are growing again by opening units in non-traditional locations such as discount stores, convenience and gasoline stores, and hotels. “Fast-food chains are finding that they can generate incremental sales without cannibalizing their regular [stand-alone] restaurants” (Halverson, 1995, p. F7).

For McDonald’s, such outlets are primarily in response to research findings concerning the decision making of its customers – approximately 75 percent of its customers decide to eat at McDonald’s just five minutes or less before their fast-food purchase (Burns, 1995). Thus, for the chain, it is now more important than ever to bring McDonald’s to the consumer rather than wait for the consumer to stop by a free-standing restaurant (Halverson, 1995). For supercenters, such as Wal-Mart, it is important for customers to eat while in the stores because the smell of food keeps shoppers around longer, leading to incremental sales increases for the discounters.

Food service franchises are also partnering with each other. Retail sites that were previously passed over because they were too large for a single brand are now feasible with multiple brand offerings. A case in point is the Tricon Global Restaurants tri-branded concept of KFC, Taco Bell, and Pizza Hut (Hamstra, 1998a). While the multiple brand offering will reach a broader market, the depth of variety within each brand will be reduced. Only the most popular items from each of the three brands will be available.

The activities described above are all examples of co-branding which is defined as two or more recognized brands operating within one space

Decision making of customers

Multiple brand offerings

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New phenomenon

(Boone, 1997). Within food service franchising, the interest in co-branding continues to increase as witnessed by its ever-expanding coverage in trade-journal articles. Yet, some industry insiders suggest that opportunities for co-branding are also becoming saturated (Davis and Ritchie, 1997).

Although co-branding is a relatively new franchising phenomenon, numerous relationships in the industry exist that may be used to document the activities. Therefore, the purpose of this paper is twofold. We first begin with a review of the literature in an attempt to describe the various co-branding methods that are available to franchisors and franchisees. Second, we examine empirically via an exploratory study the degree to which food service franchisors are willing to collaborate across a diverse set of management and marketing activities.

Co-branding methods

Two of the most visible co-branding partnerships are:

- (1) McDonald's with Wal-Mart; and
- (2) Little Caesars with Kmart.

Co-branding partnerships

Each of the co-branding relationships involves a food service franchisor and discount retailer. The retail store is typically in the form of a supercenter and the franchised outlet is located in a high traffic area within the store. The logos of the food service franchisors are also given display space on the exterior of the buildings. However, the two partnerships represent vastly different approaches to co-branding agreements (Young *et al.*, 1997). The typical McDonald's unit located in a Wal-Mart is operated by a local McDonald's franchisee in the territory. The franchisee pays both rent and royalties to Wal-Mart. These expenses are in addition to the required franchisee fee and royalties associated with being a member of the McDonald's franchise system. The Little Caesars and Kmart relationship is that of the standard franchisor/ franchisee agreement. Kmart is a franchisee of the Little Caesars franchise system and thus must pay franchisee fees and royalties. The opportunity to own and operate a Little Caesars unit in a Kmart is not offered to any of the pre-existing franchisees in the area.

Long-term viability

Many questions remain about the long-term viability of co-branding ventures. While McDonald's has secured a captive audience in Wal-Mart stores, it has found itself with limited exposure in the back of stores and many units have since been removed (*Nations' Restaurant News*, 1997). Little Caesars has recently announced the closing of many of its stand-alone locations due to a company restructuring effort (Raithel, 1999). Although none of the Kmart units were closed, the level of brand awareness will certainly decrease in some markets. Given the potential for co-branding failure, additional information is needed to understand such relationships. Accordingly, we conducted a thorough review of co-branding practices documented in various trade journal articles and found that franchisors may develop co-branding relationships through a variety of methods. In addition, an attempt was made to locate any academic research that examines co-branding between franchisors and/or franchisees. Unfortunately, little academic research exists that addresses the topic.

The underlying motivation to engage in partnering activities is often a result of a franchisor's evaluation of its resources and expertise and will lead to one of four methods of co-branding:

- (1) the internal development of a second brand;
- (2) the sale of its brand to an acquirer;
- (3) the purchase of a second brand; and
- (4) the external development of a second brand.

Each method is briefly described below.

Developing a second brand

Internal development

A franchisor must decide if it has the expertise and originality to create a second brand, as well as the financial and human resources to commit to the development of a second brand. If the franchisor does indeed feel that it can answer yes to both questions and does not desire to partner with another franchisor, then it will either develop a second brand internally or bundle existing brands. For example, as recently as 1997, Blimpie International (BI) Inc. was seeking to acquire a second brand (Tannenbaum, 1997). BI, however, decided to develop its own high-end quick-serve Italian concept called Pasta Central. Between 200 and 300 co-branded Blimpie Subs & Salad/Pasta Central units are to open over the next five years (Zuber, 1999). Also, International Dairy Queen will soon offer its own tri-branded concept of Dairy Queen, Orange Julius and Karmelkorn in locations dubbed Treat Centers (Shubart, 1999).

External source

Sell brand

If the franchisor has developed a brand with high equity but does not have the internal resources that will enable it to pursue co-branding on its own, then it must look to an external source. One option is to offer its units to franchisees of other complementary franchisors. For example, TCBY Enterprises is allowing approved Subway franchisees to sell a limited number of TCBY products in their stores. It is not known how many Subway units will add TCBY franchises since Yogen Früz, a TCBY competitor, is also a potential co-branding partner for Subway (*Arkansas Business*, 1997).

A more drastic option is to sell its entire system to another franchisor. Long John Silver's (LJS) Restaurants Inc. had been searching for a buyer for its 1,275 units since it filed for bankruptcy in 1998. A&W Restaurants has agreed to acquire LJS. Though both systems will continue to operate as separate companies, plans are under way to make co-branding of A&W/LJS an important aspect of future strategy (Carlino, 1999).

Franchising agreement

Purchase brand

When a franchisor lacks the expertise to develop a second brand but does have sufficient monetary resources, it may either buy the entire system of a complementary franchisor or simply enter into a franchising agreement with another franchisor and its franchisees. In 1996, Arby's Inc. secured a franchise agreement with T.J. Cinnamon that would place T.J. Cinnamon products in approximately 2,500 Arby units. As a result, Arby's franchisees were given the opportunity to become T.J. Cinnamon franchisees (Kramer, 1996). Arby's recently took the co-branding effort one step further by actually acquiring the T.J. Cinnamon brand (Hamstra, 1997). In its first co-branding venture, White Castle Systems Inc. has become a franchisee of Church's Chicken. White Castle now has the right to develop Church's restaurants within its existing White Castle restaurants in the USA (*Franchising World*, 1997).

Separate entities

External development

When a franchisor lacks both the expertise and the resources to secure a second brand, it may still seek the assistance of another franchisor. However, both firms remain separate entities with no financial equity exchanged for units. One approach may be a trade-out agreement. For example, when a proposed acquisition of Miami Subs by Arthur Treacher's Inc. collapsed (Treacher's lacked the financial resources), the two companies agreed instead to an extensive co-branding pact allowing each chain to offer the menu of the other (Hamstra, 1998b). Another approach may be a host agreement. Holiday Inn Worldwide has entered into a relationship with T.G.I. Friday's to create numerous co-branded sites. With expectations of increased traffic and greater profitability for both, Holiday Inn will focus solely on accommodations while T.G.I. Friday's will provide hotel guests with food and beverage (Sheridan, 1998).

Strategic decisions

Collaboration and its effect

Justis and Judd (1998), in their definition of franchising, stipulate that the franchisee must operate in accordance with the chosen method of the franchisor as well as conform to quality standards. In general, most franchisors control all strategic decisions involving their franchise systems and most of the daily operations at the franchisee level. Some franchisors, however, have relinquished some degree of control through the creation of franchisee advisory councils that may suggest managerial actions for the franchisors (Justis and Judd, 1998).

When dealing with traditional franchisees (i.e. independent business people or entrepreneurs), the franchisor typically has not fostered a collaborative environment since most franchise contracts favor the franchisor. Thus, the notion of collaboration (e.g. joint action or decision making) for a franchisor may be new territory altogether. For example, trade dress (i.e. "the total visual image and overall appearance" (Abbott and Lanza, 1994, p. 2)) is one aspect of a franchise system where the franchisor is typically unwilling to accept deviations from the norm across franchisee locations. The trade dress represents the uniqueness of a particular franchise system and thus is a valuable commodity in reinforcing product differentiation in the mind of the consumer. Co-branding between franchisors may jeopardize the uniqueness of each franchise system by blending together trade dresses. Franchisors interested in co-branding, yet unwilling to collaborate with other franchisors, would be more likely to purchase a complementary system or develop a second brand internally.

Tri-branded concept

Co-branding by a franchisor will impact a system's franchisees since many decisions will be implemented at the store or unit level. For example, the tri-branded concept of KFC, Taco Bell, and Pizza Hut provides such a challenge to existing franchisees. In existing territories where the brands operate as three single brands, a Pizza Hut franchisee, for example, would have to buy out the KFC and Taco Bell franchisee(s) in order to implement the tri-branded concept. In addition, the tri concept is more labor intensive and managerially complex according to Larry Durrett, a Texas-based franchisee (Hamstra, 1998a).

Methodology

Given that most discussion concerning co-branding relationships is anecdotal in nature, a pilot study was conducted to learn more about the willingness of franchisors to collaborate across a diverse set of management and marketing activities. The sample for the study included the population of food-classified International Franchise Association (IFA) members for the year 1997. The IFA classifications used for the sample included baked goods/

Survey instrument

donuts/pastries, ice cream/yogurt, pizza, restaurants, and specialty foods. Each of the 148 franchisors received a questionnaire with a cover letter requesting the completion of the survey. Respondents were asked to select a co-branding partner with whom the relationship had been the longest. Each respondent indicated the type of business of the co-branding partner, including convenience stores (non-gasoline), fast-food restaurants, gasoline stations, and other.

Partnering firm

The survey instrument contained questions that measured the degree of collaboration on 30 items that represented various franchise-related decisions involving management and marketing activities. A seven-point scale ranging from (1) minimal collaboration to (7) extensive collaboration was used to rank respondents' opinions. In addition, demographic information was collected from the respondents and is shown in Table I. The mailing resulted in 30 respondents of the potential 148, an initial 20 percent response rate.

Of the 30 respondents, 16 were involved in co-branding relationships. The 16 franchisors reported using several of the co-branding methods identified earlier in this paper. Versions of Sale of Brand to an Acquisitor included the partnering firm and/or its pre-existing franchisees becoming franchisees of the respondent. Versions of Purchase of Second Brand included the respondent and/or its pre-existing franchisees becoming franchisees of the

	Number	Percent
1. International Franchise Association classification:		
(a) Baked goods/donuts/pastries	1	6
(b) Ice cream/yogurt	1	6
(c) Pizza	1	6
(d) Restaurants	10	63
(e) Speciality	3	19
2. Mean number of franchised units in system	667	
3. Mean franchise system gross sales (\$ in millions) for 1996	837	
4. Franchise system has someone specifically responsible for co-branding unit development:		
(a) Yes	14	
(b) No	2	
5. The business of the selected co-branding partner (includes multiple responses):		
(a) Convenience stores (non-gasoline)	4	
(b) Gasoline stations	4	
(c) Convenience/gasoline	2	
(d) Fast-food restaurants	8	
(e) Hotels	1	
6. Mean number of co-branded units with partner	88	
7. Method of co-branding with partner (includes multiple responses):		
(a) My company has become a franchisee of my co-branding partner	2	
(b) My co-branding partner has become a franchisee of my company	9	
(c) My franchisees have also become franchisees of my co-branding partner	5	
(d) My co-branding partner's franchisees have also become franchisees of my company	2	
(e) My company merely leases space inside my co-branding partner's units	4	
(f) My co-branding partner merely leases space inside my units	1	
(g) My co-branding partner simply pays royalties on product sales	1	

Table I. Demographic characteristics of co-branding respondents

partnering firm. Versions of External Development (i.e. simple leasing of space and royalty payments) were also reported. The survey instrument did not include detailed questions concerning Internal Development of a Second Brand since no collaboration between franchisors would result. Only one firm, however, indicated that it owned a second brand. The sample in terms of its IFA classification percentages is representative of the total population in the food category.

Findings

The results of the survey are shown in Table II. While the size of the sample prohibits any robust statistical analysis, a simple review of the mean results provides some evidence of the willingness of franchisors to collaborate with

Decision or activity	Mean
<i>Strategic issues</i>	
Organization mission statement	3.90
Organization-wide objectives	4.43
Long-range planning	4.31
Market share objectives	4.38
Financial objectives	3.81
Capital investment	5.06
Franchise fees	3.69
Expansion decisions	4.69
Decision to resell	4.56
<i>Operational issues</i>	
Accounting methods	3.88
Human resource needs	3.63
Equipment needs	5.19
Site location	5.13
Operational procedures	5.19
Hours of operation	4.56
<i>Product-related issues</i>	
Test marketing	4.48
New product planning	4.38
Mix of products	4.56
Guarantees	3.63
Packaging of products	4.25
<i>Purchasing issues</i>	
Supplier selection	4.38
Inventory levels	4.13
<i>Price-related issues</i>	
Prices of products	4.37
Discounts offered	4.37
<i>Promotional-related issues</i>	
Advertising expenditures	4.13
Non-advertising promotional expenditures	4.19
Personal selling activities	4.13
<i>Store design issues</i>	
Physical layout	5.25
Physical appearance	5.25
Atmosphere/ambience	5.19

Note: Seven-point scale items ranging from (1) minimal collaboration to (7) extensive collaboration

Table II. Extent to which franchisor is willing to collaborate with co-branding partner on various franchise-related decisions or activities

Willingness to collaborate

their co-branding partners. However, extensive levels of collaboration were not reported for any issues.

In general, the respondents expressed a slightly above average willingness to collaborate on most issues. The range of mean scores across the issues was narrow with a low mean of 3.63 and a high mean of 5.25. Store design issues involving physical layout and physical appearance show the highest ratings on willingness to collaborate. Of the 30 issues in question, only six items received a less than average rating: organization mission statement, financial objectives, franchise fees, accounting methods, human resource needs, and guarantees.

Trade dress issues

It is interesting to note that items dealing with trade dress issues such as layout, appearance, and atmosphere, received the highest ratings on willingness to collaborate. Since such aspects of a co-branded unit must represent both brands, the merging of franchises in the mind of the consumer may indeed be occurring. Most of the low scoring items represented strategic and operational issues. Thus, franchisors appear protective or more individualistic on some system-wide concerns.

Summary

Though co-branding among franchisors continues to garner increasing popularity in the trade, the academic community's examination of this franchising phenomenon is limited. This study is extremely exploratory in nature and at best a pilot study. However, it does provide us with some insight as to the methods and activities of co-branding among franchisors in the food service industry. Franchisors, by nature rather non-collaborative, are willing to collaborate with their co-branding partners on some activities. However, as stated earlier, extensive levels of collaboration were not reported for any issues. This finding may suggest that internal development of a second brand in-house or the purchase of the entire system of a complementary brand will be the preferred forms of co-branding in the future.

Unfortunately, the sample size of the study prohibits additional analysis. An interesting research question, however, has emerged. Are there differences in the degree of collaboration across the various methods of co-branding? For example, are external development relationships more collaborative than those involving a franchisor/ franchisee type agreement? The answer may lie in the balance of power between the co-branding parties.

Managerial implications

Franchisors that are considering co-branding as a possible approach to market expansion have various methods available. Before entering into a co-branding agreement, a franchisor should carefully evaluate its expertise in brand development and its availability of resources. The outcomes can determine whether the franchisor should attempt to develop a second brand in-house or whether it should begin to look for a co-branding partner. Obviously, internal development provides a greater element of control. The franchisor must also realize that a variety of methods are available to it in terms of co-branding. Finally, the franchisor should expect to collaborate on numerous managerial and marketing issues, especially store design issues and possibly trade dress. As more franchisors become involved in co-branding relationships, new knowledge may emerge that documents reasons for success and failure.

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This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present

Executive summary and implications for managers and executives

More outlets or a bigger range – ways to grow fast food businesses

The mad rush of modern life demands food to be on hand, ready to eat and tasty. And there is nothing worse than having to go out of your way just to get a snack. If you are hungry, you are hungry and you need food. The fast food business exists to serve this sort of demand rather than any demand for high quality, lovingly prepared, creative meals.

The result of this demand is that fast food outlets – at least in the USA – seemed to be reaching saturation point. We had reached the stage where nobody (or almost nobody) was more than the required five minutes from the nearest burger, pizza, taco or sub. Except that consumer behaviour was changing. The fast food businesses had to respond.

They caught us at the airport, at the railway station, on the freeway and in the park. Now it seems they are catching us in the supermarket, the gas station and at the hotel. We cannot get away from them!!

Whatever we may think about fast food, we all (when we are being honest) should admit to buying from the ubiquitous outlets of McDonalds, Pizza Hut, Taco Bell and Burger King. They are convenient, consistent and (generally speaking) edible. They fill a hole (literally in some ways) in the market for eating out.

Co-branding – doing a deal to get more outlets or more sales

The desire to enable people to get to a fast food outlet (well our fast food outlet) quickly has driven deals between the fast food franchisors and big store groups, hotels and oil companies. These deals provide more outlets and should deliver higher sales. They take the fast food closer to the potential customer and allow that spur of the moment decision – that pang of fancy hunger – to be satiated.

The stores like fast food outlets too because they mean customers spend more time at the store. And, as night follows day, more time in the store means more spending at the store. Hey, you could spend all week in Wal-Mart now McDonalds are there!

The other approach to co-branding is through links with a second brand – either one created by the franchisor itself or else one from elsewhere. The aim here is different in that we are not trying to get closer to the place where the customer makes the decision. We are seeking to increase the amount bought from us or to attract more customers to a particular place.

What is the best route for co-branding then?

The answer here depends largely on what you are aiming to achieve, how much resource you have got available for brand development and the internal brand development skills. This assessment will determine whether to develop a secondary brand, to buy a second brand, to enter into a co-operative arrangement with another fast food brand or to link up with a non-competitive brand.

Young et al. provide a few suggestions and set out a framework for assessing the co-branding decision. But the fast food business has still to consider a range of possible options and must refer this consideration back to the main marketing and corporate strategy. Simply taking advantage of an

opportunity may be right but you do not know it is so if you cannot link it to some clear strategic aim.

It strikes me that the process of business expansion in the world of fast food franchises depends to a significant extent on the ability to increase the number of outlets to the highest level – to the point at which adding an additional outlet anywhere would result in business moving from another outlet rather than new business being attracted.

The problem with this analysis is that it is impossible to define how and when one outlet will take trade from another to the overall detriment of the business. And, in a franchise business the risk of introducing cannibalism of neighbouring outlets is very significant as that outlet is somebody else's business.

What the strategists seemed to have noticed is that fast food purchase is, in some ways, linked to events or activities rather than connecting merely to location. Therefore, additional fast food purchases are made in a store rather than fast food purchases that would otherwise have been made at a standalone outlet.

A bigger offering attracts more custom

A bigger range – salad as well as burgers – attracts more custom. First, because people will visit more often since they can have a pizza one day, a burger the next and a salad on the third. The customer can bring his/her mate who hates burgers.

Second, the bigger range encourages bigger sales. Especially when the new brand is supplementary rather than an alternative. You can see the extra sales from adding sweet brands to your savoury fast food range. Or salads and “healthier” options that attract the fussier eater.

The extent to which fast food operators can continue expanding geographically is limited, but co-branding provides opportunities to expand the size of the business without the cost of expensive premises that may just damage the business elsewhere.

(A précis of the article “Food service franchisors and their co-branding methods”. Supplied by Marketing Consultants for MCB University Press.)

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