**Joyce A. Young, Casondra D. Hoggatt, Audhesh K. Paswan, (2001) "Food service franchisors and their co‐branding methods",** **(How to Use Co Branding)**

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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)

The activities described above are all examples of co-branding which is defined as two or more recognized brands operating within one space. (Boone, 1997)

Yet, some industry insiders suggest that opportunities for co-branding are also becoming saturated (Davis and Ritchie, 1997).

Co-branding methods.

Two fo the most visible co-branding partnerships are:

1. McDonald’s with Wal-Mart; and
2. Little Caesars with Kmart.

The typical McDonald’s unity 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.

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 location due to a company restructuring effort (Raithel, 1999).

Unfortunately, little academic research exists that addresses the topic.

Four methods of co-branding:

1. The internal development of a second brand,
2. The sale of its brand to an acquisitor,
3. The purchase of a second brand, and
4. The external development of a second brand.

Each method described

Internal development

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 location dubbed Treat Centers. (Shubart, 1999)

Sell Brand

One option is to offer its units to franchisees of other complementary franchises to sell a limited number of TCBY products in their stores. (Arkansas Business, 1997)

Purchase Brand

It may either by 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 2500 Arby units. (Kramer, 1996)

External development.

However, both firms remain separate entities with no financial equity exchanged for units.

Collaboration and its effect.

Some franchisors, however, have relinquished some degree of control through the creation f franchisee advisory councils that may suggest managerial actions for the franchisors. (Justis and Judd, 1998)

Thus, the notion of collaboration ( e.g. jount action or decision making ) for a franchisor may be new territory altogether. For example, trade dress (e.g. “the total visual image and overall appearance” )(Abbott and Lanza, 1994 p2)

Co-branding between franchisors may jeopardize the uniqueness of each franchise system by blending together trade dresses.

The tri-branded concept of KFC, Taco Bell and Pizza Hut provides such a challenge to existing franchisees.

Methodology of test group. Small group

Findings

In general, the respondents expressed a slightly above average willingness to collaborate on most issues.

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. Franchisors, by nature rather non-collaborative, are willing to collaborate with their co-branding partners on some activities.

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 possible 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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Summary of Comments on

CharlesBCannonDependencea.pdf

**Page: 2**

**Dependence and Reliance:** **(Rules)**

**Keys to Unshackling Co-Branding Alliances From Federal Franchise Rule Compliance**

**By CHARLES B. CANNON**

Most of these commentators acknowledge the desirability of avoiding franchise regulation in forming an alliance yet none has given detailed attention to the circumstances

under which alliance partners may escape compliance with pre-sale registration and disclosure laws.

Co-branding alliances frequently begin with a test phase that allows the partners to verify their concepts' operational compatibility and to add definition to their original working proposal. A

test may produce relatively modest changes in the ongoing relationship, affecting such secondary issues as development schedules, training requirements, or supply arrangements. On

the other hand, a test may lead the parties to recast the basic structure of their relationship.

The effort to identify and perfect an exemption can prove especially rewarding to those

who want to reduce their transaction costs avoids any of the three elements, the relationship will not be subject to regulation as a franchise under the Franchise Rule.

Guests have no incentive to avoid the trademark element of the Franchise Rule's definition. Their motivation is to broaden their brand name or service mark's exposure and to increase its recognition among the host's customers. Withholding authority for the host to display the

guest's trademark or service mark would run counter to the guest's objectives.

Guests occasionally structure their programs with a view toward avoiding the fee element. However, a guest runs the risk of artificially skewing an alliance's economic foundation

by eliminating financial benefits it would demand from traditional franchisees.

An escape from regulation will not always prove possible-or even desirable. Some alliances must

include all the elements of a common franchise to maintain operational integrity and financial stability. In most cases, however, the rewards of locating an escape route justify the

effort to find one.

Under the Franchise Rule's definition, a franchise will not emerge unless "the franchisor

exerts or has authority to exert a significant degree of control over the franchisee's method of operation ..

No state uses the federal definition of franchise. There is no consistent pattern of exemptions in the federal and state approaches to franchise regulation, or even among the states.

It focuses on two avenues alliance partners can follow to avoid compliance with the Federal Trade Commission's Franchise Rule.

2 One avenue emanates from the second element of the FTC's definition of franchise-the so-called The Franchise Rule contains a three-pronged definition of "franchise." Generally, a franchise involves an ongoing commercial relationship in which: (1) the franchisee obtains the right to sell the franchisor's branded products or to operate under the franchisor's trade name; (2) the franchisor exercises significant control over the franchisee's operations or provides significant assistance to the franchisee; and (3) the franchisee pays a fee.'

The definition is phrased inclusively; a relationship must satisfy all three elements before a franchise materializes.

Citing the Interpretive Guides' lists of fundamental controls and assistance as authority, the staff concludes that the combination of technical training and promotional assistance is sufficient to indicate the presence of significant assistance.

cases where the franchisor targets its program to experienced operators who will exercise a substantial measure of independence in the way they operate their businesses. In those instances, the absence of compelling need for the franchisee to rely on the franchisor's contribution to the relationship is the factor that supplants the dependence factor. Several Advisory Opinions illustrate this shift of emphasis.

The fact statement indicates that buyers will be obligated to operate under the seller's trade name, to use some of its recipes, to comply with the seller's quality standards in preparing the recipes, and to comply with the seller's sanitation standards. The buyers can operate, manage, and market the restaurants in all other aspects as they choose.

The Franchise Rule provides that fractional franchises are

exempt from regulation.

The Franchise Rule defines a fractional franchise as: any relationship ... in which the person described therein as a franchisee, or any of the current directors or executive officers thereof,

has been in the type of business represented by the franchise relationship for more than 2 years and the parties anticipated, or should have anticipated, at the time the agreement establishing the franchise relationship was reached, that the sales arising from the relationship would represent no more than 20 percent of the sales in dollar volume of the franchise.

Further, because at least 80% of its sales are derived from other products29 ... the franchisee is not substantially dependent on the sales of the franchised product for his own success.

The fractional franchise definition contains two essential elements: the franchisee or its management must have substantial experience in the same or a related line of business;

and projected sales of the franchisor's products or services by the franchisee may not exceed 20 percent of the franchisee's total sales.

precisely because of their actual experience with the particular goods or services, or similar foods or services, being offered through the franchise arrangement.

two-year experience requirement may be satisfied by the franchisee directly, or may be imputed from experiences the franchisee's current directors and executive officers have accumulated.

analyzing whether an affiliation arrangement may qualify for the fractional franchise exemption, we will be guided by several considerations.... [W]e will consider whether the franchisee is experienced enough to understand the risks that will likely arise when switching from an independent business to an affiliated business. We will also consider the practical and contractual impediments that may prevent the franchisee from disengaging from the affiliation

relationship. In that regard, we will examine such factors as whether the affiliate retains its own goodwill and its own client base, whether the affiliate has other sources of income, and the

extent to which the affiliate is subject to covenants not to compete or other post-term restrictions

The fractional franchise exemption does not indicate whether the two-year experience requirement is subject to a freshness standard that weeds out people with outmoded

experience. The Interpretive Guides indicate that qualifying experience may have been gained "at any time in the past."

he fractional franchise exemption is not the equivalent of a sophisticated investor exemption to the Rule. Rather, the exemption is available only in instances where franchisees are sophisticated new California experienced franchisee exemption which requires that the relevant experience be acquired within the last seven years.

As indicated previously, these characteristics include: (1) the degree of the host's independence from the guest's control with respect to material aspects of operations and management; (2) the extent of the host's experience in the same or an allied industry; and (3) the tangential relationship between the guest's program and the host's overall enterprise. The host's sophistication also counts in assessing the relevance of the host's experience.

Thus, the 20 percent calculation involves a three-step process: (1) projecting the host's sales of the guest's products or services for at least a year from the date the relationship begins (longer, if the parties decide that twelve months does not constitute a representative period); (2) projecting the host's total gross revenues for the same period (including revenues from the guest's products or services); and (3) dividing the first amount by the second. The exemption depends on reasonable anticipation; the guest franchisor will not lose the exemption's benefits if the parties make their projections in good faith."

A dependence/reliance analysis involves more subjective, fluid standards.

host does not need or want. In all cases, they should eliminate as many of the controls and services that appear on the FTC's lists of fundamental controls and assistance as possible, preferably all of them. \* The host must retain independence in the way it operates its

core business. A guest should insist on dictating standards only for activities that relate directly to operation of its concept. The host should retain complete control over personnel,

compensation, accounting, and other key management policies. The less intrusive the guest's rules and regulations, the stronger the argument for host independence.

Preferably, both parties should retain discretion to dissolve the alliance without economic penalty if either decides the relationship no longer serves its interests.

The guest should not bind the host to a post-term covenant against competition, unless a restriction on post-term competition appears to be the only effective way to shelter trade secrets or to inhibit fickle behavior by the host. This is a subtle, but important, point Advisory

Opinion 96-2" raises (this opinion considers real estate brokerage affiliations).

The agreement that governs the alliance should reinforce the parties' intention not to create a franchise relationship. A trademark license is an essential ingredient of many co-branding alliances. The agreement, therefore, may convey such a license. However, the guest should

avoid licensing its business system as a whole, as it would in the context of a franchise. A simply phrased grant of a limited right to use the guest's operation's procedures or merchandizing techniques will suffice. The agreement should also preserve the preeminence of the host's trademarks and trade dress in the combined enterprise. For example, limiting the surface area of signs that feature the guest's mark to not more than 30 percent of the surface area of signs that depict the host's mark. Further, the agreement should expressly disclaim the guest's

intention or obligation to provide any services or to impose any controls that go beyond the bare minimum required to support the host's offering of the guest's products or services in an operationally sound fashion.

It is easier to justify an exclusion for a concept that is operationally simple than for a concept that is operationally complicated. Generally, the less training and operations support the guest offers or the host needs, the stronger the argument that the relationship does not involve significant guest controls or assistance. To achieve maximum advantage, guests should tailor their co-branding packages to eliminate redundant controls and assistance a particular

Avoiding Franchise Rule compliance will hold attraction for alliance partners as co-branding becomes an increasingly pervasive feature of franchising's landscape. The effort to identify and perfect an exemption or an exclusion will prove especially rewarding to guests who want to reduce their transaction costs, increase flexibility in negotiating and structuring an alliance, or defuse hostility from hosts who lack familiarity and sympathy with the legal constraints that apply to franchising. The concepts of dependence and reliance provide keys that franchise counsel can often use to help their clients claim these rewards. This article's observations and recommendations are not intended as recipes that counsel can use uncritically to concoct

an escape from pre-sale regulation. Instead, it presents analytical tools counsel can use to rationalize and refine an ambiguous fact situation as a prelude to requesting an Advisory

Opinion. It also suggests a vocabulary counsel can use to avoid extraneous issues in framing their Advisory Opinion requests. The article's observations and recommendations also are

not intended as panaceas for the pains of pre-sale regulation. Not every alliance can escape regulation. Some involve transfers of novel information and unique procedures that

necessarily create dependence. Others involve guests who refuse to relinquish tight control over any outsider who operates under their trade names. Despite these countervailing factors, enough co-branding alliances can benefit from the exercises this article suggests to justify the time and energy required to perform them.

**Summary of Comments on Chapter 13: Franchising, Joint** **(Procedures and types)**

**Ventures, Co-Branding and Licensing. Franchising, Joint Ventures, Co-Branding and Licensing**

leveraging your intangible assets and developing strategic ,.. relationships. These strategies are not only an efficient way to build your brand awareness, customer base and market share

but also are a cost-effective way to achieve growth compared with traditional capital-formation strategies.

Page: 3

You don't have to have the ambition to become a national or multinational corporation

to consider franchising, which can be an especially effective option for smaller businesses that cannot afford to finance internal growth.

Responsible franchising starts with an understanding of the

strategic essence of the business structure. There are three critical

components of the franchise system: the brand, the operating system and the ongoing support provided by the franchise' to the franchisee, First, the brand creates the demand, allowing the franchisee to initially attract customers, The brand includes the franchisor's trademarks and service marks, its trade dress and decor; and all the intangible factors that create customer loyalty and build brand equity. Next. the operating system essentially delivers the promise, allowing the franchisee to maintain customer relationships and build loyalty. Finally, the ongoing support and training provide the impetus for growth, providing the franchisee with the tools and

tips to expand its customer base and build its market share.

By franchising their product or service, these companies can:

• obtain operating efficiencies and economies of scale;

• achieve more rapid market penetration at a lower capital cost;

• reach targeted consumers more effectively through cooperative

advertising and promotion;

• sell products and services to a dedicated distributor network;

• replace the need for Internal personnel with motivated owner operators;

and

• shift the primary responsibility for site selection, employee training, personnel

management, local advertising and other administrative concerns to the franchisee.

The Foundation for Responsible Franchising

Responsible franchising is the only way that growing companies and franchisees will be able to co-exist harmoniously in the 21 st century. Responsible franchising means that there must be a

secure foundation from which the franchising program is launched.

The key components are:

A proven prototype location (or chain of stores) that will serve as a basis

The store or stores must have been tested , refined and operated successfully and be consistently profitable.

A strong management team made up of Internal officers and directors and business aspects of franchising as a method of expansion.

Sufficient capitalization to launch and sustain the franchising program.

Problems

A poorly prepared business plan and inadequate capital structure are often the principal causes of failure of early-stage franchisors. A distinctive and protected trade Identity Proprietary and proven methods of operation and management. Comprehensive training program for franchisees, field support staff, A set of comprehensive legal document, A demonstrated market demand for the products and services, A carefully developed set of uniform selection criteria,

A genuine understanding of the competition, Relationships with suppliers, lenders, real estate developers and related, key resources, A franchisee profile and screening system, An effective system of reporting and record keeping, Research and development capabilities, A communication system, National, regional and local.

 Regulatory Issues

The offer and sale of a franchise is regulated at both the federal and state levels.

The states that require full registration before the "offering" or selling of a franchise are California, Illinois, Indiana, Maryland, Minnesota, New York, North Dakota, Rhode

island, South Dakota, Virginia, and Washington.

The FTC Rule sets forth the minimum level of protection to be afforded to prospective franchisees.

no private right of action under the FTC Rule; however, the FTC itself may bring an enforcement action against a franchisor that does not meet its requirements. Penalties for noncompliance have included asset impoundments, cease-and-desist orders, injunctions. consent orders.

mandated rescission or restitution for injured franchisees, and civil fines of up to $10,000 per violation.

The FTC Rule regulates two types of offerings: package and product franchises and business opportunity ventures. Package and product franchises have three characteristics:

• the franchisee sells goods or services that meet the franchisor's quality standards (in cases where the franchisee operates under the franchisor's trademark, service mark, trade name,

advertising or another commercial symbol designating the franchisor);

• The franchisor exercises significant assistance in the franchisee's method of operation, and

• the franchisee Is required to make payment of $500 or more to the franchisor or a person affiliated with the franchisor either before or within six months after the business opens.

Business opportunity ventures also involve three characteristics:

• the franchisee sells goods or services that are supplied by the franchisor or a person affiliated with the franchisor;

• the franchisor assists the franchisee in any way with respect to securing accounts for the franchisee, or securing locations or sites for vending machines or rack displays, or providing the

services of a person able to do either; and

• the franchisee Is required to make payment of $500 or more to the franchisor or a person affiliated with the franchisor either before or within six months after the business opens.

The FTC Rule exempts fractional franchises, leased department arrangements and purely verbal agreements.

Joint Ventures

Joint ventures are legal structures that offer another alternative to capital formation for small and growing companies.

A less formal method of meeting some of the same objectives without the legal structure ca n be achieved by creating strategic alliances or co-branding

In addition to access to resources, the entrepreneur may enjoy other benefits from the

relationship, such as a boost in creditability by "piggybacking" on the goodwill and reputation of the larger corporate partner.

The key to these relationships is to define expectations and goals clearly in advance,

Here are eight reasons you might consider a joint venture or strategic alliance:

• Develop a new market (domestic or international)

• Develop a new product

• Develop and share technology

• Combine complementary technology

• Pool resources to develop a production and distribution facility

• Acquire capital

• Execute a government contract

• Access a distribution network or sales and marketing capability

All successful joint-venture and strategic-alliance relationships share some essential factors. These critical success factors apply to virtually all industries and types of strategic relationships and include:

• a complementary unified force or purpose that binds the two or more companies together;

• a management team committed to the success of the venture, free from politics or personal agendas;

• a genuine synergy in which the sum of the whole truly exceeds its individual parts;

• a cooperative culture and spirit among the strategic partners that leads to trust, resource sharing and a friendly chemistry among the parties;

• a degree of flexibility in the objectives of the joint venture to allow for changes in the marketplace and an evolution of technology;

• an actual alignment of management styles and operational methods, at least to the extent that it affects the underlying project (as in the case of a strategic alliance) or the management of the new company created (as in the case of a formal joint venture); and

• the general levels of focus and leadership from all key parties that are necessary to the success of any new venture or business enterprise.

In many cases, smaller companies looking for joint-venture partners wind up selecting a much larger Goliath that offers a wide range of financial and nonfinancial resources that will allow the smaller company to achieve its growth plans.

Co-Branding

Co-branding is a form of informal partnership whereby two or more established brand names combine to bring added value, economies of scale, and customers recognition to each product. Co-branding can be arranged between two franchise companies. two nonfranchise companies,

or a franchise company and a nonfranchise company. It has many forms, including:

FINANCIAL SERVICES CO-BRANDING. In the early 1990s, credit card companies pioneered co-branding, pairing up with airlines or telecommunications companies for mutual branding and

shared rewards.

RETAIL BUSINESS FORMAT CO·BRANDING. This type of co-branding is growing rapidly), within the retailing, hostility and franchising communities to attract additional customers. This type

of co-branding includes: creating complementary product lines to offset different consumer tastes (such as Baskin Robbins and Dunkin Donuts, whose products are now offered at the same co-branded locations) or consuming patterns (combining a traditional breakfast-only consumer traffic with a lunch-only traffic pattern); or selling additional products or services to a "captured customer" (such as selling Starbucks coffee at an auto service mini-mall while customers wait for

their cars to be repaired).

Cobranding is one of four leveraging options; the other three are line extensions. stretching the brand vertically in the existing product class, and creating brand extensions into different

product classes. Co-branding should be considered for the following reasons

• It is a way to leverage the company's Intangible assets (including brand awareness and customer loyalty) by entering another product class.

• It can provide added value in the form of customer convenience thereby creating a point of differentiation from competitive products and services.

• It is easier and less risky than trying to build a strong brand because there are many internal and external impediments, such as corporate bias against innovation, short-term orientation, price pressures and competitive threats.

• It can gain marketplace visibility and create new customer interest, which helps a company maintain brand equity in light of competitors' new product introductions and declining brand

awareness.

• It can change the perception of a brand. The company can create a new brand personality (for example, the use of Bart Simpson with Butterfingers), or at least update it.

• It can help a company gain access to new product categories that otherwise would have involved a significant investment of time, money and resources.

• It can provide greater assurance about product quality. A brand name assists consumers' understanding of a product's characteristics, and the presence of a second brand may signal to

potential customers that another firm is willing to stake its reputation on the product.

• It can reach a new customer base far more quickly than a new brand launch, which usually takes several years (three to five years in the credit card industry, for example).

• It offers a shortcut to an Image upgrade, such as Ford's Special Eddie Bauer Editions.

• It offers a way to target a key demographic audience, such as MasterCard's creating a co-branded card with universities to reach college students and alumni.

Advantages and Disadvantages of Co-Branding

Co-branding offers many advantages for your business:

• shares costs, including marketing and packaging, but also rent and utilities if the two companies are in same loc3 lion;

• permits complementary services to achieve marketing and expense benefits. For example, many gas stations and restaurants cobrand, and quick-service restaurants have teamed up with

each other to serve a different but complementary meal. One brand finds another brand that will not compete directly against it but will bring business in the door at a time of the

day when it does not get high traffic. Box 13-3 on the opposite page cites some examples of each.

• facilitates expansion Into International markets;

• makes It easier to get brand recognition for your brand in foreign market if it's tied to a well-known domestic brand: many foreign markets enjoy American products, so the co-branding

works to their advantage;

• creates conveniences for customers, which can increase business for both companies;

• taps into national Image and awareness of the brand of the issuing company:

• Increases distribution network;

• enhances market clout In terms of the value and quality communicated to customer; and

• doubles brand recognition doubles the endorsement power and doubles consumer confidence in the co-branded products.

There are also some disadvantages of co-branding:

• agreements between CO-branding partners can be hard LO construct and agree upon;

• marketing must be agreed on by both parties, which can delay lime to market and reduce the flexibility of your marketing plans;

• bad publicity for one company can affect the other company;

• if one brand fails to live up to its promises made to the other, the co-branding relationship can dissolve; and

• If co-branding falls, both companies suffer, and consumers may become confused about new products, diminishing the value of both companies involved in the co-branding relationship

• How will the co-branded opportunity be marketed?

• Which company will provide the services and assistance?

• Which partner's team will operate the co-branded stores or sell the co-branded products? Will it vary?

When you and another company have determined that you want to develop a co-brand arrangement, you'll need to formalize the deal by executing a co-branding agreement that

addresses the issues listed below.

• designated territory;

• Initial term and renewal of the co-branding agreement (if any);

• duties of each party;

• licensing of the Intellectual property;

• licensing fees;

• financial reporting;

• quality control;

• noncompete clauses;

• termination (including operation of the co-branded units upon termination); and

• dispute resolution.

**Summary of Comments on Mcdonalds cobranding.pdf** **(Sucessful Cobranding)**

**McCafe: The McDonald ’ s co-branding experience Author: OWEN WRIGHT, LORELLE FRAZER**

**BILL MERRILEES Journal of Brand Management (2007) 14, 442 – 457. doi: 10.1057/palgrave.bm.2550088; published online 11 May 2007**

INTRODUCTION

Franchising in Australia is reaching a stage of saturation and maturity. 1,2 Macroeconomic forces and the federal regulation of franchising are major contributors to this situation.

Rubin 8 argued, however, that the legal and regulatory framework could negatively influence franchisors away from franchising if there was significant intervention of regulators into the franchising relationship.

BACKGROUND LITERATURE

Early explanations of franchising

 First, resource constraints theory argued that franchising was a source of external capital needed for expansion into a given market by the franchisor. administrative efficiency theory stated franchising evolved to overcome agency problems associated with geographic and rapid expansion.

The maturity of franchising

multiple concepts, multiple systems and co-branded franchising 23,24 are franchised forms that have evolved in recent times.

DEFINING CO-BRANDING AND THE RESEARCH QUESTION

Most agree that cobranding, however, involves combining two brands to create a single product or offering. Co-branding, especially within business format franchising as a dominant method of retailing, has been a relatively recent phenomenon in Australia that has attracted Mobile franchising Arrangements, 20 multiple unit franchising, 16,21 conversion franchising 22 combining the experiences of both brands at the point of exchange.

FINDINGS

Brand extension or co-branding?

That is an internal perception and internal bias but the golden arches are well and truly strong enough to carry a sub-brand. McCafe was created in 1993 as a coffee pot on the counter of the McDonald ’ s

One franchisee was encouraged to own the entire outlet containing all three brands. Another

Potential inhibitors to co-branding have been identified as systems, culture and legal and will be discussed in a separate section. McDonald ’ s / McCafe can therefore be seen as a collaborative venture constructed to further the interests of the two brands.

Theme 1: Attracting customers

Themes

Interviewees reported that, after the introduction of McCafe at specificsites, the effect of competitors had decreased. if we generate a dollar ’s worth of sales in the McCafe, we are also generating

between 50c and $ 2.00 additional sales in McDonald ’ s ’ .

Theme 3: Reinvigorated brand equity The reinvigoration of the brand is recognized as a major motivation for co-branding.

Theme 2: Competition Different segments of the market were clearly identified as both potentially new

customers and those who had dissipated over time. Similarly, the threat of encroachment appears to be a motivating factor for franchisees to incorporate McCafe into their system. appears more likely that

McCafe will continue to be adopted rapidly throughout the system to enhance sales and profi tability.

Certainly the franchisor perspective is that the separate brand of McCafe is reconstructing the group ’ s

attributes through the co-branding process. Lower operational costs for the franchisee are also apparent.

Theme 4: Growth incentives

Incentives for system and unit-wide growth also provide motivations for cobranding. Franchising as a model for growth is fundamental to the culture of McDonald ’ s and its continual focus on increasing sales and profitability. Acknowledgment of a significant return on investment (ROI) was also provided as

a motivation by franchisees to acquire McCafe.

Inhibitors to co-branding

The following three themes are identified. Clearly identified in the data was coordination and integration of systems throughout McDonald ’ s and McCafe

Theme 6: Culture

The McCafe was fi rst tested in 1993 in the Swanson Street McDonald ’ s, McCafe staff members wear a different uniform, are generally older than the typical part-time crew and receive specialized

training. As demonstrated in the franchisee interview, SACs contributed to the cultural change that

brought about McCafe in this manner.

Culture as an intangible aspect of any organization remains a more complex part of retail co-branding.

potential litigation that can be identified as barriers to co-branding.

Theme 7: Legal issues

Legal considerations have provided both incentives and barriers that appear

The inhibiting forces, however, are particularly significant in franchising cobranding. Considerably greater investment is required to overcome the cultural and system barriers emanating from the inherent inflexibility of franchising systems.

SUMMARY OF THEMES

The first four themes represent the motivation for co-branding. Essentially the incentive or motivation for co-branding is founded on growth opportunities and the synergy between the two brands.

Proposition 1: The motivational forces for franchising co-branding relate to synergies across the

brands and to growth opportunities, in a similar way to other forms of co-branding.

Proposition 2: The inhibiting forces to franchising co-branding are particularly strong, requiring

large investments in systems and cultural re-alignment.

Proposition 3: For an organizational cobrand to be successful within a franchised retail environment,

the company involved might favor acquisition in order to minimize the investment costs against the barriers or inhibiting forces.

CONCLUSION

Franchising is a complex, inflexible institution, not well equipped to deal with innovation.



**NATION'S RESTAURANT NEWS September 2, 2002 (****Who is Doing It and What we have learned))**

**Home Depot builds ties with eateries**

**By Paul Frumkin**

RANDOLPH, MASS. - Dunkin' Donuts is opening full-scale outlets in three Home Depot stores,

marking the latest high-profile partnership between a national foodservice operator and a major

retailer.

Huddle House franchisees file suit. Other prominent foodservice chains that have pacts with U.S. retailers include McDonald's, Nathan's Famous and Little Caesars Pizza.

By Jack Hayes

250 Huddle House restaurants would be represented in the amended lawsuit.

Schlotzsky's upscale tack aims to beef up franchise results, eyes pizza co-branding

By Ron Ruggless

The sandwich chain operator, which is buying back its largest franchised territory and eyeing

co-branding with a pizza chain, posted a 1-percent dip in revenue for the second quarter ended

June 30, to $15.9 million. Once found almost exclusively on the menus of fine-dining restaurants, pedigreed Angus beef has begun to turn up on the menu boards of mainstream

quick-service sandwich chains. Schlotzsky's said its 35 company owned restaurants showed

positive performance in the quarter. Of area developer territory would make co-branding in key markets more attractive and feasible. "In addition to new restaurants within our system," he said, "co-branding opportunities have the potential to boost future royalty and licensing: revenue and contribute to our advertising program." He said the company is interviewing potential cobranding partners.

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TITLE: Schlotzsky’s upscale tack aims to beef up franchise results, eyes pizza co-branding

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**Operating\_a\_cobranded\_efectivly.pdf ective co branding**

**Author: admin Subject: Highlight Date: 10/15/2018 4:25:53 PM**

**SCHLOTZSKY'S**

We've also begun adding Carvel Ice Cream concepts to new Schlotzsky's, making them tri-branded franchise locations, and all future franchise agreements for a Schlotzsky's restaurant include both Cinnabon and Carvel concepts.

Brand Complementation

There are numerous operational and economic benefits to co-branding, but if the customer is confused by the pairing of brands or conversely, sees the offerings as too similar, one or both of the brands in the relationship will be hurt. The key point is to pair two or more brands that

complement each other's offerings either by individual dining experience or by day-part.

Operational Synergy

Having the correct brand pairing can and should benefit the franchisee operationally.

communication is key. Theoretically, you should be able to run each concept with no additional labor costs, the same manager, the same staff, and similar operations with the franchisee

benefitting from no additional rent, added revenues or customer flow. The success of co-branded locations is dependent on how efficiently you can hybrid your operations to benefit from having two concepts in one location.

Marketing and Identity Retention

Make sure each brand continues to do what it does best with as little overlap into the next. as possible multi-unit owners.

Customer Service

Good customer service is obviously always essential, but it is doubly important in a co-branded

franchise. Communication

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**playing well with others.pdf**

**CO-BRANDING among franchises appeared**

**But new concepts are emerging to prove that strategic combinations of businesses can cut costs and broaden the customer**

**I BY JASON DALEY | PHOTOGRAPHY BY RUDY ARCHULETA**

one-stop option for groups of people with different cravings "multi-branding." A

decade later. Yum—the holding company that owns and operates Taco Bell, KEC,

Pizza Hut and, until last year, A&W and Long John Silver's—hailed the concept as

"potentially the biggest sales and profit driver for the restaurant industry since

the advent of the drive-thru window."

In 2002, co-branded outlets accounted for $2 billion in sales for Yum.

Co-branding can increase operational complexity, which can lead to substandard products and

poor customer service. is, at face value, a brilliant idea;

Not only does co-branding promise to save on operational costs like leasing, staff, kitchen equipment, building maintenance and advertising, it can even out customer flow

The last few years have been littered with corporate co-branding marriages that bit the dust.

Many well-established brands have difficulty bending their strict operations rules to accommodate a partner, "We eliminate the deal breaker ... Whatever people

want, we can cover it." —Ted Milburn, Nestlé Tollhouse Café

scale the strategy produces are worth it, "There are definitely some clear

Co-branding can be successful if it's done strategically between complementary brands, like salads and smoothies or pizza and another savory impulse snack

Many companies that have thought through their cobranding are finding the economies of

"We found it didn't, and that it actually brought additional customers into stores and grew revenues with no additional labor costs, no rent, no managers or any of the things that

come up with a separate unit."

Entrepreneur April 2012

**Citation:**

**Ann Hurwitz, Co-Branding: Managing Franchise Brand**

**Associations, 20 Okla. City U. L. Rev. 373 (1995)** **What is it, why do it.**

**Co-BRANDING: MANAGING FRANCHISE BRAND ASSOCIATIONS**

**ANN HURWITZ\***

INTRODUCTION

Co-branding is now a familiar term in the current lexicon of franchising and a popular strategy in

New locations, cost sharing opportunities, increased volumes, and the added market power offered by the combination of two or more strong brands are powerful inducements to enter the co-branding arena.

These risks may not be eliminated, but they can be reduced by careful planning that focuses on the selection

I. CO-BRANDING: WHAT IS IT?

Branding is in essence a marketing concept that has traditionally been identified with product manufacturers. Brand pairing, or co-branding, between companies has not been limited to product manufacturers. Service companies have also used the concept. A prominent example of co-branding may be found in the credit card industry where credit card. Franchise companies have not been immune to the lure of co-branding.

In its 1987 report on Franchising in the Economy, the U.S. Department of Commerce observed that: "Many franchisors are currently involved in testing a new form of franchising comprised

of different products under the same roof-in other words a franchisor would sell products and/or services within the unit of another franchisor .... ." 7. U.S. DEP'T OF COMMERCE, FRANCHISING IN THE ECONOMY 1985-1987, at 5 (1987).

The Department of Commerce referred to this trend as "combination franchising,"' and

that term was adopted by some of the early commentators.9

8. Id.

9. See Arthur I. Cantor, Combination Franchising, INT'L FRANCHISE ASS'N 20TH

ANNUAL LEGAL SYMP. (1987); Michael R. Davis & Gary Blumenthal, Concurrent

Franchising, INT'L FRANCHISE ASS'N 21ST ANNUAL LEGAL SYMP. (1988).

Using a variety of different vehicles, like kiosks, carts, satellites, modules and express units, franchise companies have expanded into other franchised systems. They have also expanded into non-franchised chains, such as hospitals, schools, ballparks, hotels, airports, and other non-traditional or "special purpose" venues. *6. See* Charles B. Cannon & Kim A. Goodhard, *Non-Traditional Expansion: The Use and Limitations of Trademark Licenses,* A.B.A. FORUM ON FRANCHISING (1995) (providing an excellent discussion on the background of the co-branding movement

in franchising).

Particularly in systems where purchasing decisions are made largely on the basis of convenience and accessibility, significant benefits may be obtained by "going to the consumer," establishing units in nontraditional or "special purpose" venues, and maintaining a presence in as many locations as possible."

For further discussion of these and other reasons that franchise companies engage in non-traditional, or alternative, distribution, see Cannon & Goodhard, supra note 6; Cantor, supra note 9; Davis & Blumenthal, supra note 9, H. Bret Lowell & Mark A. Kirsch, Dual Branding: The New Franchising Phenomenon, 2 LEADER'S FRANCHISING Bus. & L. ALERT, 2-3 (Nov.-Dec. 1995).

As with any non-traditional expansion effort, cobranding partners must deal with construction and development, cost sharing, labor, and a host of related issues. " It is submitted, however, that the concept of co-branding adds another dimension to the general discussion of non-traditional expansion,

focusing as it does on the pairing of two or more distinct "brands." The directed effort to effectively partner with a complementary brand is what distinguishes a discussion of co- branding arrangements from a general discussion of non-traditional or alternative distribution arrangements. It is also what

presents increased opportunities and risks for the participants.

II. CO-BRANDING: WHY Do IT?

Generally speaking, the added value that co-branding offers franchise companies is leverage-that is, the ability of the partners in the co-branding alliance to rely on each other's image, products, services, and locations to increase their own market penetration and market share. Where each system, or brand, in

the co-branding arrangement has developed a reputation for quality, the alliance of the systems gives each partner immediate access to the consumer trust, confidence, and acceptance that the other has developed over time. More particularly, co-branding offers a franchise company the opportunity to expand its offering of products and services without incurring the expense and some of the risks associated with the internal development of new products, services, or outlets. It also provides companies with the opportunity to capture a new customer base or to alter its existing customer

profile.

Thus, co-branding may come about in the form of a "top-down" directive to ally the systems. From companies like yum or pepsi co who operate several franchise services.

Choosing a Partner

First, does the prospective co-branding partner offer added name brand equity;

Second, does the prospective co-branding arrangement offer additional marketing benefits?

Third, does the prospective co-branding partner have a strong and complementary customer base?

Apart from the three considerations described above, it is submitted that there are at least three others that are very relevant to the identification of a compatible co-branding partner. In brief, there must also be operational, financial and legal compatibility.