

The Internet and the Franchise Industry

How an industry misused the Internet

White Paper

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Introduction

The Internet is now an accepted part of the way in which we all communicate. Low cost computers, cell phones and networks have allowed this technology to become ubiquitous. We access more information than ever before at lower (or no) cost. Industries and institutions have changed to embrace this technology. Yet our ability to manage and understand this information has not improved. In many ways, much of our society has lost the ability to critically evaluate information.

It has been nearly fifteen years since I wrote about technology. Back in the 1990s, I published approximately two dozen articles on how to best utilize technology for business and investing. My focus was on the use of the Internet and information technologies. I was also a public speaker on these same topics at technology conferences in Canada and the USA. Since 1998, I have been part of the franchise industry.

Today, I look back on how the Internet has developed over the past twenty years with disappointment. The Internet is, first and foremost, a mechanism for communication and the sharing of information. So how is it, in the Franchise Industry that I have been part of for more than a decade, that during this same time franchisees seem to have lost ground during a period when the ability to communicate among themselves has improved so dramatically? Why is it that franchisors are now perceived as being more ruthless in their dealings with franchisees than ever before? Is this perception correct? This paper documents the way in which I have come to understand what has happened these past twenty years. Through this process I have come to three conclusions.

- A. Franchisors have not changed in the way they work with their franchisees. Franchisors have adapted, out of necessity, to changes that have been forced upon them by the franchisee community.
- B. Internet technology was never envisioned as a way to destroy institutions that have existed for decades. Yet that is exactly what has and continues to occur in the Franchise Industry. This situation has come about by decisions made by a very significant proportion of individuals (franchisees) to no longer support their own institutions.
- C. The necessary equilibrium in franchise relations has been disrupted. Franchisors no longer have the opportunity to work with franchisees speaking with a single voice. The organization tasked with this responsibility, when it exists, no longer has the financial resources and intellectual capital needed to fulfill this role.

This paper provides an overview of how the Internet has affected overall communications and flow/quality of information. It then addresses how these changes have become entrenched in the Franchise Industry. Finally, recommendations are provided for improving the current situation.

Internet Communications in our Society

For over a century we have relied on print media to provide us with in depth and unbiased information about our society. The Internet is viewed as an improvement on our ability to communicate with each other and to access information.

Media has now moved to the online world. Magazines and newspapers have lost their traditional customer base - both advertisers and those who purchase the product. Media is challenged by convincing consumers to purchase their product(s) when they also distribute the same information for free on the Internet. And in today's society, people are too busy to read in depth articles on a particular subject. Most individuals prefer to listen to brief sound bytes or read short articles that summarize the information for us. In this environment, the market for print media is declining at a rapid pace.

The consequences of this are significant. We continue to lose the gatekeepers who were most capable of providing relevant information to us. The print media that remains today is much smaller and less capable of providing the quality information of the past. What remains is shorter in length, less effectively researched and more dependent on biased sources of information that is easily reproduced. Former reporters of the news were the first to migrate to the online world in order to replace the incomes they lost as their jobs disappeared. Through this transition, it was hoped that the tradition of effective and relevant print media would migrate to the Internet. It has not worked out this way. Most former print media writers found that they could no longer earn a living in a world where few would pay enough for their expertise. Yet this was only the beginning of the decline in media.

The online world quickly became overpopulated with individuals reporting or redistributing information. Individuals began to build their own personal online presence for many reasons - far too many to describe here. They often did so because there was no longer a significant cost to online communications. Simply start a inexpensive web site, blog or just reply to existing articles. Most felt they could earn a living by selling advertising yet very few have proven capable of doing so. There are now far too many information sites seeking advertising dollars in a world where few are willing to pay for content.

There is now an unrealistic consumer expectation that information should be available at no cost to the reader. I would argue that the fault for this lies entirely with the newspaper industry. They made a decision to put their content online for free despite the high cost of gathering this content. This has destroyed the perceived value of their product and had many unintended repercussions. Reporting news is costly. Without revenues to cover these costs, many jobs have been lost. Publications became smaller and less frequent. Many have disappeared. The information we now see in these publications is usually less effectively researched and dependent on less credible but easily available sources of information. The ripple effect of these events, however, is what this paper is attempting to address. Many necessary institutions that also depended on placing a value on information (and intellectual expertise) have been negatively affected by these events.

In place of these failing institutions we now have too many news websites, online newsletters, web sites and blogs. The belief that everyone could sustain their new businesses with advertising revenue was and remains impractical. To feed this growing expanse of sites that provide free distribution of information, we have seen an increase in communications directed to these sites - press releases, company announcements, government initiatives and privately contracted (or internally generated) surveys to support specific products/views. And the reporters of this information no longer have the desire or ability to focus on unbiased and relevant information while ignoring biased sources of information. In short, we have sacrificed quality of information for an increasing quantity of irrelevant or unreliable information. It is now up to the reader to decide what information is relevant and accurate, while also identifying what information may be false, incorrect, misrepresented or simply fabricated. And it is increasingly evident to me that most individuals are not up to this task.

None of these drawbacks to Internet communications are recent. As early as 1998, an article in a Chinese publication used the term "Internet junk" to describe "use of the Internet to disseminate ... product catalogues and advertisements." This article talks about the spread of a massive amount of "junk" at extremely low cost. This was combined with a "lack of regulations and standards to produce any type of information - real and fake information, correct and wrong information, good and bad information - thus creating a flood of information online. The result is to make it easier to mislead people while increasing the difficulty and cost of searching and using valuable information, thus wasting considerable Internet resources and time." (Source: The Negative Impact of the Internet and Its Solutions by Ru Guangrong, The Chinese Defense Science and Technology Information Monthly, Issue 121, 1998)

Further adding to the destruction of informed reporting of information is a more recent phenomenon of allowing readers to comment on a particular article or posting. It is ironic that individuals who could not be bothered to write a letter on a topic think nothing of drafting a poorly thought out, nasty or otherwise inappropriate e-mail to anyone of their choosing. Unlike Letters to the Editor which are selected for publication based on content and awareness of the author, these online comments are often not controlled in any way. Posters can and often do hide their identity and choose not to disclose their reason(s) for posting. This anonymity and lack of disclosure often results in a less than professional discussion of the topic. Individuals who can contribute useful information on a subject are often less likely to participate in a public discussion that very often degenerates into a mean spirited distortion of the topic at hand.

Understanding Institutions that Support the Franchise Industry

To best understand how the Internet has impacted on the institutions within the Franchise Industry, one must first understand the scope of this industry and the role of its institutions.

The Franchise Industry is a \$624B industry. It is larger than the entire durable goods industry which includes automobiles, computers, trucks and airplanes. It creates nearly 10 million jobs and generates approximately \$229 B in payroll. Overall, it accounts for an estimated 7.4% of all private sector jobs. (Source: Economic Impact of Franchised Businesses, A Study for the International Franchise Association Educational Foundation; PriceWaterhouseCoopers, 2004)

The Franchise Industry is comprised of two distinct groups, franchisees and franchisors. Franchisees own local businesses and generate revenues by selling products/services to the ultimate consumer. Franchisors provide support services to franchisees in return for various payments. Each of these groups have different goals. Franchisees desire to maximize their profits by limiting their payments to their franchisor while receiving as many support services as possible. For the Franchisor, the goal is the exact opposite. Franchisors desire to maximize their revenues from franchisees while spending as little as possible on the services they provide. This is a symbiotic relationship where both parties are dependent on the other for survival yet compete to maximize their benefit in this relationship.

When an individual franchisee needs to communicate with their franchisor, for good or bad, they can be at a disadvantage when dealing with a large organization. It is for this reason that the Franchisee Association exists. Franchisee Associations provide many services to franchisees including educational programs, informational newsletters, facilitating communications with franchisors, developing or supporting business development initiatives, educating franchisees and conducting proprietary research.

While all these services are important to ongoing franchise relations, it is research that is least understood and (arguably) of most importance. There are times when franchisor and franchisee look at opportunities or challenges from a different perspective. Perhaps franchisees feel that a particular product is priced too low or that advertising is ineffective. Alternatively, franchisees may feel that vendor product or pricing is too high. In order to justify a change these types of changes, solid documentation is often necessary. It is this ongoing research that provides franchisee groups with the supporting evidence and/or documentation to support this franchisee perspective, or to quantify the negative impact of what may currently be a bad business policy. The need for this documentation is particularly important when the franchisor perspective is in conflict with the franchisee perspective.

Out of necessity, Franchisee Associations have morphed into two types. In the absence of Franchisee Associations paid for and supported by the franchisee community, franchisors have created similar organizations and provided them with funding. Where

both forms of association exist, those supported through funding by the franchisor tend to dominate because they have the ear of the franchisor and also the financial resources to undertake initiatives. Unfortunately, these franchisor supported groups can be in conflict with franchisee interests. Their dependence on the franchisor for funding and support services limits their ability to fully represent the franchisees. To cite just one example, there is no reason for a franchisor to support and fund research by a Franchisee Association when the research results could conflict with their own corporate agenda.

The term Independent Franchisee Association refers to the franchisee association that is fully funded by franchisees with a sole purpose of representing franchisee views in all dealings with their franchisor. Because of its independence from the franchisor, this group tends to be better able to represent the franchisee perspective and support their interests.

Franchisee Associations also exist at more global level. These groups can provide a single voice for the numerous franchise specific associations when it comes to broader issues. These associations may serve as a lobby group to the government, for example, or to undertake research of or on behalf of the entire franchise industry. These associations may represent franchisors or franchisees.

Impact of the Internet on the Franchise Industry

The Internet has had a significant impact on the Franchise Industry as a whole. There are many ways in which the Internet has facilitated communications within the industry, increased sales, improved customer service and even resulted in new products/services. Nevertheless, this industry has had to adapt as it has lost many of its institutions while those that remain are less effective. This has negatively affected both franchisor and franchisee in ways that are not often considered.

Individual franchisees have become more empowered. They have greater access to more information, vendors and services. Many no longer rely on their associations (institutions) for direction, services or support. There is, however, a negative aspect to these changes that is not often considered. While not entirely comprehensive, here are some of the ways in which the Franchise Industry has been negatively impacted by the growth of the Internet.

- *Franchisees are now better able to obtain information on their own through the Internet but are often incapable of distinguishing good information from bad.* In the past, this was a role served by Franchisee Associations. Today, franchisees lack access to those better able to critically review and comment on a wide array of topics from proposed changes in a Franchise Agreement to new legal documents they may be required to sign, new product or service offerings that are mandated by a franchisor or a new pricing structure. More often than not, I think that the main source of comment on these types of issues now comes from the franchisor. Franchisees lack the expertise to critically evaluate the impact of proposed changes that may have been drafted by attorneys or business professionals. They also lack their own research in support or opposition to changes that are being considered. Finally, franchisees lack the financial resources to obtain representation or guidance from professionals better versed in these matters. The lack of an effective Franchisee Association results in a reduced ability to make positive recommendations to a franchisor, and to oppose changes or an approach that may not be in the best interest of franchisees.
- Franchisees are most often small business owners who lack the skills, time and desire to analyze the impact of macro events on their local business operation. Their focus tends to be on the day to day issues surrounding the survival of their business and overall profitability. *Franchisees often make a determination that supporting a Franchisee Association is of no benefit to them because there appears to be no short term return on their investment.* The problem with this approach occurs in the future when franchisees find their livelihood is threatened. Perhaps the franchisee has signed an amendment to their Franchise Agreement that they did not fully understand and which may have relinquished control over pricing or product offerings. The amendment may involve higher payments to the franchisor for infrastructure (such as a new store signage, a menu board or technology support) or services newly deemed necessary by the franchisor. By the time franchisees fully understand the implications of what they have signed,

the damage is done. The time to enact change is prior to signing such an agreement. At these times it is essential that the infrastructure of a Franchisee Association exist and be fully operational in order to combat these threats at the time that they are presented.

- Ongoing research is often deemed an unnecessary expenditure. I would argue that the lack of ongoing research is exactly the reason why franchisees often complain about their franchisor. While there is often anecdotal evidence within a large franchise, solid information on any one area of the business (or of the franchise network) is often lacking. While a franchisor may undertake their own research regarding initiatives that are of interest to them, franchisees lack the information to support their own interests. Franchisees often have little knowledge of thoughts and opinions of other franchisees, their financial situation or other information that may be needed to support any particular business perspective. Yet that is exactly what is needed when confronted with an urgent business threat or opportunity. Lacking this information, franchisees have no alternative but to rely on research that may have been provided by their franchisor, and any interpretation of this information that may have been provided. There are times when this information may be incomplete or designed to improve corporate revenues at the expense of franchisees. While some argue that it is the franchisor's role to look out for their franchisees, the reality is that a franchisor has to strike a balance between the needs of multiple interest groups. Without a Franchisee Association taking on this research role, essential decision making resources are unavailable to the franchisee community when they are needed.

Both franchisee and franchisor suffer from the changes identified here. As the weaker party in the business relationship, franchisees must work together to if they desire to have an impact on the decisions made by their franchisor. And without a Franchisee Association to represent them, franchisees are normally unable to present a united front to combat business threats or to exploit business opportunities. The loss of a single voice and combined resources of an organized group, once provided through the Franchisee Association, also makes it more difficult for a franchisor to engage in dialog with franchisees. Decisions must still be made but with less effective input from franchisees. As a result, more of these decisions are likely to benefit the franchisor simply because franchisees do not see the value of supporting their own institutions.

What can be done in the Current Reality

The problems outlined in this paper have been twenty years in the making. They are the result of decisions made by tens of thousands of individual business owners. As a group, these business owners have not fully understood the implications of their decisions to utilize Internet communications in the way that they have chosen. It is now up to this same group to move forward in a more effective way. While some may find it convenient to blame current problems on unscrupulous franchisors, the franchisors should not be faulted for continuing to do business while franchisees have changed the way in which they operate. It is the franchisee institutions that have degraded and need to be rebuilt.

Changing the current status quo can only take place with a concerted effort by franchisees, and this change will take time. It took more than twenty years of steady decline to reach this point. It may take another decade before significant changes in the other direction are evident.

Here are three steps that franchisees can take to help restore balance in the franchisee/franchisor relationship.

1. Encourage and Support Independent Franchisee Associations

Where a franchise has an existing Independent Franchisee Association, support it as a paying member. Consider the association to be a long term investment to protect your interests when major changes to your franchise are being considered. Allow the association to serve as the voice of franchisees for all franchisee initiatives. Do not assume that a Franchisee Association financially supported by the franchisor will be looking out for your interests.

Where an Independent Franchisee Association does not exist, work to create one for your franchise. You can contact the International Association for Franchisees & Dealers (IAFD - www.Franchise-Info.ca) for information on how to begin the process.

When evaluating the value of an Independent Franchisee Association, do not be focused on short term considerations. Its true value is not in providing new vendors, creating new products/services or distributing a monthly newsletter. It is essential when a franchise is considering changes to a franchise agreement, new pricing models, technology initiatives and other long term determinations. These situations do not come up frequently. When they do come up, it is essential that your Independent Franchisee Association is fully funded and operational so that it can quickly marshal the expertise and resources necessary to evaluate, and then respond to, these opportunities or threats on your behalf.

2. Educate Yourself

Do not rely on information provided by a franchisor and do not assume that someone else is looking out for your welfare. Develop a broader perspective on your industry and the franchise industry in general.

Blue MauMau (www.BlueMauMau.org) is a great site for franchise industry news and information. Read their articles, participate on the discussion boards and share your knowledge with the community.

FranchiseFacts (www.FranchiseFactsUSA.com) runs a National Franchisee Survey each year and publishes an Annual Report. Participate in the survey, review the Annual Report.

These businesses are providing services that used to be provided by Franchisee Associations in the past. They are evolving as they determine the best way to support the Franchise Industry as it adapts to the technological changes outlined in this paper. With your support, these newer institutions will continue to develop.

3. Be Professional in all your Public Communications

Any group is only as strong as its weakest link. Unfortunately, too many weak links present themselves on the Internet. Individuals who would never write a proper letter will draft a short message in support of or opposed to something that has been published on a web site. For whatever reason, online posters seem comfortable with making statements they would never make to someone in person. Many of these messages are not grammatically correct, contain numerous spelling and/or factual errors, make slanderous accusations and include all types of outlandish comments. The vast majority of these individuals choose to remain anonymous. Some feel that they are doing a service to others by stating what they feel has been left unsaid. What many of these posters fail to recognize is that the content, presentation and tone of their message discredits the vast majority of franchisees in the eyes of those reading such a message. It is entirely likely that franchisors monitor many of the public discussion boards as one method of determining the pulse of their own franchisees. These poorly considered messages are unlikely to sway a franchisor nor are they likely to be considered reliable by other readers.

Three Suggestions to Improve your Online Posts

Identify Yourself - If you are uncomfortable with disclosing your identity, perhaps what you are saying needs to be reconsidered or presented differently. Don't use anonymity in place of preparing a more thoughtful and considered message. Anonymous posts are not and should not be considered to be credible. Instead of serving to advance dialog, anonymous posts more often result in a less than professional discussion of the topic at hand. Traditional print media learned long ago that the best way to promote thoughtful comment is to only publish those letters from an identifiable individual. In the online world, this lesson has yet to be enforced.

Read your message three times before posting - Is your message grammatically correct? Is the spelling correct? Have you completed your thoughts? Can portions of your message be interpreted differently due to lack of clarity? Does your message add to the discussion or are you simply repeating something that has already been said? You

only have one opportunity to present your message before it is seen by the world. Be sure to give the right impression.

Do not criticize or complain without offering an alternative - It is much too easy to criticize or complain than to provide a more considered option. Yet it is quite common for online posters to make a complex topic appear much simpler by ignoring facts that may be inconvenient for them. In this way, the Internet has become the chosen venue for those opposed to virtually anything. Anonymity, false claims and repeat postings by individuals, or one individual pretending to be many, seek to misrepresent a reality that some prefer to ignore. Requiring individuals to follow some basic rules in order to have their opinion heard is not an unreasonable stipulation to facilitate discussion.

Demanding the same discipline for online postings as required for publication in traditional media would be an admirable goal. At the very least, these standards would lead to a more supportive environment where thought leaders are more likely to participate and, possibly, thrive. The net effect would be to present the franchisee community as a more professional, knowledgeable and authoritative group.

Conclusion

Franchisees, like most small business owners, are an independent lot. Many have succeeded where larger corporations have failed. They do so by understanding their own businesses to the minutest detail, by doing much on their own, making most decisions independently and having confidence in their own abilities.

Admirable as these traits are, however, there are limits to one's knowledge and capabilities. There is an old adage - a person who represents himself has a fool for a client. This was meant to describe someone choosing not to employ separate legal counsel at a criminal trial. Perhaps the same can be said about someone who thinks they can successfully oppose a large corporation without a comparable organization. Many in franchising have tried. Few have succeeded.

Unfortunately, the Internet has become a tool for the handyman lacking proper expertise. They have all this information available to them yet lack the ability to distinguish among good and bad information, and have even less ability to effectively use this information. It wasn't always this way and there is no need for the current situation to continue.

Franchisees need to acknowledge their individual limitations, recognize and support the development of institutions that compensate for these limitations, and allow these institutions to represent them in their dealings with franchisors.

About the Author

Perry Shoom is the founder of [FranchiseFacts](#), a company that provides research services for the Franchise Industry. The company also publishes an Annual Report of the results from its National Franchisee Survey. The 2010 Annual Report, and the 2011 Franchisee Survey that is currently in progress, can both be found at www.FranchiseFactsUSA.com. The survey is open to all franchise owners and store managers. FranchiseFacts does not disclose identifying information that may be provided by survey respondents.