

Finding the Right Franchise

Under a big brand, small operators can compete and profit in a consolidated industry

By Tammy Mastroberte

For independents and small operators, the convenience and fuel retailing industry is getting more and more competitive as consolidation is leading to the big chains getting even bigger. Opting to join a franchise network is becoming a more attractive proposition to stay in business and remain competitive. The c-store industry offers many different franchise brands to consider.

“What’s true of any franchise business is you are in business for yourself, but not by yourself,” said John Reynolds, president of the International Franchise Association (IFA). “You get brand recognition, training, marketing support, and economy of scale.”

One of the biggest competitive issues small operators face is price. Larger chains have more buying power, which allows for discounts at the store level. But when part of a franchise, a small operator can have access to better price points, too.

“Being part of a larger franchise gives me as a single-store owner the buying power of the

entire network,” said Marylou Mendez, chief financial officer of Mendez Automotive Services in Costa Mesa, Calif., operating a Chevron ExtraMile franchise location. “I get pricing and service from vendors that I could never negotiate on my own.”

A franchise operator also gets access to the parent company’s established business and technology systems, marketing and merchandising tools, and more. This provides them with the knowledge and power of the larger brand, which they would not otherwise have access to on their own.

“We are offered tools and standards developed for us, as well as ongoing guidance,” explained Marc Strauch, owner of Folsom, Calif.-based Strauch Cos., operating 10 BP ARCO/ampm franchise locations. “They continue to check on standards for us quarterly and do secret shops to make sure customer service is up to par. And they offer new plans moving forward.”

BP has a quarterly site inspection process called CORE, where third-party contractors visit the sites unannounced to conduct inspections and see where each site is performing well and where they need to improve. BP also does quarterly mystery shops, according to Matt Chandik, retail operations support manager at BP Americas, which has more than 950 franchise locations in five states, including California, Nevada, Arizona, Washington and Oregon.

“We know there is a relationship between how our sites score on CORE and their fuel and c-store volumes. So, the more the sites invest in the process and the better they do at improving their CORE scores, that will translate into higher revenues,” Chandik said.

Strauch is also taking advantage of the newest programs BP is rolling out, such as the MOJO program with new graphics and a new coffee and sandwich offer. The last time the company did a major refresh was in 2003, and BP is now offering all franchisees the update, which includes fresh sandwiches,



Ninety percent of 7-Eleven's 8,500 U.S. locations are franchised.



fruit, salads and more.

In addition to ongoing support, many franchisors offer extensive upfront training. For example, when joining 7-Eleven Inc.'s franchise network, new owners spend a week in Dallas going through Launch, which introduces them to the 7-Eleven brand. They then spend between six and eight weeks going through the College

of Operations Leadership for in-store training. This is where they learn how to use the business systems and reports offered through it, all of which are designed to help them grow their business in an optimal way, explained Larry Hughes, 7-Eleven's vice president of franchise systems. 7-Eleven has roughly 8,500 U.S. locations, with 90 percent of them franchise owned.

"Their field consultant will then visit the store once per week to share how to manage day-to-day details and look at the reports from our system to help the franchisee translate them into action in order to grow their business," Hughes noted.

CITGO Petroleum Corp. offers extensive education to its franchisees, as well. This includes its Retailer Institute, a hands-on seminar that features industry speakers and real-world examples from stores to help CITGO independent dealers find solutions for their locations, according to Alan Flagg, assistant vice president of supply and marketing at CITGO, which has more than 5,300 locations in nine states.

The Option of Licensing

Outside of franchising, another option to bring brand recognition to a convenience store/fuel station location is licensing. Under this model, an operator can maintain more control over their business because licensing does not have the same operations or product-assortment requirements as franchising does.

Some companies offering the licensing option in the convenience and fuel retailing space are Gulf Oil, Clark Brands, 76 Brand and Sinclair Oil.

Sinclair offers a license program for areas outside of the markets where it currently supplies fuel. This is "primarily on the West Coast, Arizona, New Mexico, Texas, Arkansas and anywhere east of the Mississippi," said Kary Taylor, general manager of product sales and strategic business development for the Salt Lake City-based company, which has been in business for more than 100 years.

Sinclair has more than 1,300 branded stations and 135 licensed sites. The company works with more than 400 distributors. Licensees get access to Sinclair branding, national and local marketing support, its credit card network, and Sinclair's iconic Dino symbol.

"Our customers are the distributors. So, the distributor would pay to reimage the site for the operator, and they can brand themselves Sinclair. However, they can source gasoline

from any supplier so long as it meets the Top Tier specification," Taylor explained.

While the fueling canopies and dispensers have to be branded Sinclair, licensees have the option of having their own convenience store brand, or using Sinclair's Dino Mart brand for the c-store. The biggest benefit of Sinclair licensing, besides the recognizable brand, is the ability to buy unbranded fuel at the lowest price possible, unlike major oil brands that supply fuel directly. And although the company doesn't get directly involved in operations, Sinclair still monitors the sites to make sure they are upholding brand standards.

"We do three brand assessment shops per year because we require the licensee to uphold the same brand standards as the Sinclair sites we directly supply, including clean bathrooms, courteous service, and a well-lit, safe environment," Taylor said. "Most of our interaction is with the distributor. If a site fails our brand assessment shop for some reason, we will work directly with the distributor and the operator to get things fixed."

To become a Sinclair licensee, there is a flat license fee of \$500 per month, and usually the distributor is the one who will pay the fee. Sinclair has been offering its licensing program for more than three years now. The company is expecting to grow its number of license sites to more than 500 over the next few years.



BP likewise requires franchisees to go through its training program, and they must pass in order to be qualified to run their site, said Chandik. Then, for ongoing support, franchisees are assigned a franchise business consultant to work with them on execution at the site level, sharing best practices, and providing support to implement programs and initiatives designed to grow their business. Strauch was assigned a franchise business consultant when joining and has been working with the same person since 1999.



CITGO tailors its programs to meet the needs of its independent dealers.

WHICH FRANCHISE IS RIGHT FOR ME?

If the franchise concept appeals to an operator, there are a number of reputable and proven brands to choose from. In order to select the right fit, numerous factors must be considered. Operators should “do their homework and take a comprehensive look at what each franchise system might be offering,” said IFA’s Reynolds, beginning with the royalty fee structure and financial performance of the franchisor.

“Does the company really stand by its promises? Do they provide the support you need to run your business? How do you benefit from the fees you pay each month?” Mendez offered as questions operators should ask during the selection process.

Other things to consider include: the track record of the brand in the market; what the brand means to consumers in the area; consistency from location to location in terms of offering; and whether or not the franchise system is growing with new operators.

“Owners should ask what the brand is doing to improve their offers and drive new business,” said Chandik of BP. “Does it look like the franchise is investing in enhancements and improvements? Also, what is the longevity of franchisees in the business, and do they have multiple sites they are adding?”

Operators can request franchise disclosure documents from each brand so they can learn more about the company’s management, financials, market territories, agreements, and their obligations as a franchisee, Reynolds pointed out.

“It’s a comprehensive disclosure of the business you are getting into, and this process is regulated by the Federal Trade Commission so you know you will get all the information you are entitled to before you sign any contracts or pay fees,” he shared.

Many franchisors will provide information like this, including their financial performance earnings or estimate of earnings, as well as what they offer for marketing, training and support. Also part of this disclosure document is a list of existing franchisees the operator can contact to find out their satisfaction with the system, according to Reynolds.

“Talking with some other franchisees will give you some insights into how the program works,” Strauch recommended.

When applying to be a franchisee of 7-Eleven, the company does initial testing and screening interviews to help the candidate determine if 7-Eleven is a good fit, and vice versa. This process includes putting them in contact with local franchisees so they can discover what the system has to offer. Out of 14,000 applications in the past year, 7-Eleven franchised with only 350 people. However, Hughes said for those who do go on to franchise, the process from application to opening can be as little as three to six months.

“We have a couple of different models. The traditional, which could be a single store or multisite, is turnkey where all the work is done on changeover day and the business is ready to operate. We also have our Business Conversion Program, where we take existing independent stores and transfer them into 7-Eleven,” he explained.

Franchise companies must disclose if they have been in litigation with franchisees in the past, and what the turnover rate is. These could be red flags when deciding on a company to brand with, and an attorney or advisor could help in this area, said Reynolds.

“In some cases, larger companies will have more litigation than smaller brands, and it’s not always a bad thing. But you want to make sure you understand what is going on in that particular system,” he advised.

PARTNERSHIP BEST PRACTICES

Becoming part of a franchise system means access to best practices, tools and support, and the best way to make the most of these resources is to use them and

ask for help. Whether it's reporting systems, programs, marketing and advertising, or new program launches, the more a franchise utilizes the resources, the better his or her results will be.

"If you buy into a franchise system, you really want to take full advantage of it and get the most out of the branding, marketing and advertising, as well as the training and support they offer," urged Reynolds.

Many brands offer consultants, franchise managers, category managers and more to help franchisees customize their offerings to fit the needs of their individual store and customer base. For instance, CITGO offers flexible, competitive rebate programs, and the chain tailors its programs to "meet individual needs of the single-store or multi-store operator," said Flagg. "They are empowered to make their own decisions and we work with them to tailor a custom program."

At BP, franchise business consultants work with the store operators to collaborate on a site business planning process, goals and action plans. 7-Eleven additionally offers field consultants and marketing

managers whose job it is to work hand-in-hand with the franchisees to grow their business.

"Our business system and information system allow franchisees to really understand what the customer is buying and wants, so they can tailor the assortment and optimize it," Hughes said. "The way you get the most out of being a franchisee is to really lean into that business system, get your arms around the tools, and understand what your customers want."

While tools like these are available from all franchise brands, not all owners dig into them. There are also optional programs, like loyalty and foodservice programs, available to enhance store offerings. Since many brands are actively advertising these new programs, a franchisee can benefit from having them in their store.

"The most successful franchisees take advantage of our offers and support, and are hands-on. They consistently evaluate their business and are looking for new opportunities to serve customers," BP's Chandik said. "The franchisees are paying a royalty, so they should be taking full advantage of it." **CSN**