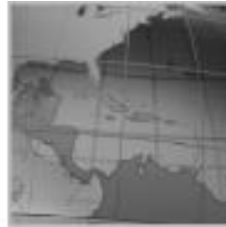


Analysis



Business Development Services     

March 2015

Trends and Opportunities in the Franchise Market

Service Area

Business Development Strategies

[Comments or Questions?](#)

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Introduction

The \$1.5 trillion franchise market offers solid and vast opportunities for selling communication products and services. Franchising is the practice of using another firm's successful business model for a fee. Franchises can be found in nearly every industry, and businesses of all sizes operate under the franchise model. Print products are an important component in supporting franchise operations' business and marketing needs.

There are over 120 different types of franchise businesses available today. Examples of popular franchises include McDonald's, Subway, Domino's Pizza, and the UPS Store. This document provides a brief overview of the franchise market and explores its broad opportunities.

Defining the Franchise Market

By definition, a franchise is a business model where the developer/owner (the franchiser) of a business concept grants others (the franchisees) the licensed right to own and operate a business based on the franchiser's business concept, using its trademark. In exchange for using the parent company's strategies and trademarks, the franchisee pays an initial fee as well as ongoing royalty fees, advertising fees, and other fees to the franchiser.

There are three basic types of franchises:

- The **business format franchise** is the most common franchise type. In this model, a company supplies owners with an established business, including its name and trademark. The franchiser company generally assists the independent owners in launching and running their businesses. In return, the business owner pays fees and royalties. In most cases, the franchisee also buys supplies from the franchiser. Fast food restaurants are good examples of this type of franchise.
- **Product distribution franchises** sell the franchisor's products and act as suppliers or dealers. In product distribution franchising, the franchisor licenses its trademark and logo to the franchisees, but typically does not provide them with an entire system for running their business. To obtain these rights, store owners must pay fees or buy a minimum amount of products. This type of franchise is most commonly found in the automobile and gasoline industries. For example, tire stores typically operate under this kind of franchise agreement.
- Through **manufacturing franchises**, a franchisor grants a manufacturer the right to produce and sell goods using its name and trademark. This type of franchise is common among food and beverage companies. For example, soft drink bottlers often obtain franchise rights from soft drink companies to produce, bottle, and distribute soft drinks.

Businesses of all sizes operate under the franchise model. Here is a description of the types of franchises by size:

- A **single-unit franchise** is a small business owned and operated by one franchisee.
- **Multi-unit franchisees** are owned by one franchisee and span multiple locations. Each location generally has a single unit agreement.
- A **master franchisee** is granted the right and obligation to sell franchisees, in addition to operating a franchise. A master franchisee typically collects royalties and fees that are generally split between franchisor and master franchisee, and provides support services to “sub-franchisees.”

To put the scope of the opportunity into perspective, we have provided a list of the key types of franchises:

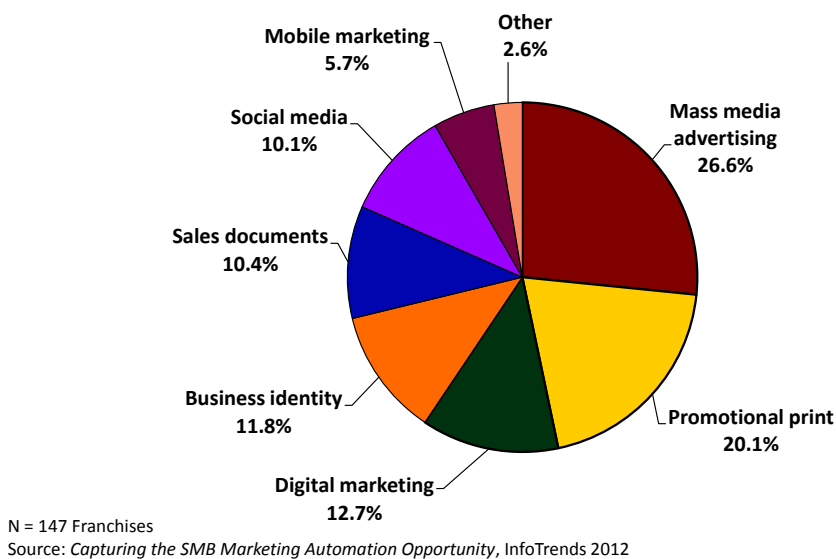
- **Automotive:** Includes motor vehicle parts and supply stores, tire dealers, automotive equipment rental and leasing, and automotive repair and maintenance.
- **Commercial and Residential Services:** Includes building/developing/general contracting, heavy construction, special trade contractors, facilities support services, services to buildings and dwellings, and waste management/remediation services.
- **Quick Service Restaurants:** Includes limited-service eating places, cafeterias, fast food restaurants, beverage bars, ice cream parlors, pizzerias, sandwich shops, and carryout service shops with on-premises baking of donuts, cookies, and/or bagels.
- **Table/Full Service Restaurants:** Establishments primarily engaged in serving patrons who are seated (i.e., waiter/waitress) and pay after eating.
- **Retail Food:** Includes food/beverage stores, convenience stores, food service contractors, caterers, retail bakeries, and beer/wine/liquor stores.
- **Lodging:** Includes hotels, motels, and other accommodations.
- **Real Estate:** Includes real estate agents and brokers, property management, and lessors of buildings, self-storage units, and other real estate.
- **Retail Products and Services:** Includes furniture and home furnishing stores, electronics and appliance stores, building material and garden equipment/supplies dealers, health and personal care stores, clothing and general merchandise stores, florists, consumer goods rentals, and bookstores.
- **Business Services:** Includes printing, business transportation, warehousing and storage, data processing services, insurance agencies and brokerages, office administrative services, employment services, investigation and security services, tax preparation and payroll services, and heavy equipment leasing.
- **Personal Services:** Includes educational services, healthcare, entertainment and recreation, personal and laundry services, veterinary services, loan brokers, credit intermediation and related activities, and personal transportation.

Defining the Print and Promotional Products Opportunity

According to InfoTrends' study entitled *Capturing the SMB Marketing Automation Opportunity*, franchise organizations' average annual marketing/advertising expenditure is \$96,258. Franchise organizations reported that their top three areas of marketing spending were mass media, promotional print, and digital marketing. Mass media advertising builds broad brand awareness of the franchise organization, while promotional print helps individual franchises market their businesses.

Figure 1: Marketing Spend by Media Type

What percentage of your advertising/marketing spend falls into the following categories?



Franchises' top five marketing channels, according InfoTrends' research, include:

- Websites (93.2%)
- E-mail (88.4%)
- Signage/Point-of-sale advertising (82.8%)
- Social network presence (83.7%)
- Printed direct mail (80.9%)
- Newspaper ads or inserts (78.3%)

Maintaining a steady customer base is critical to the success of any business, and franchises are no exception. Printed marketing materials such as brochures and flyers help get the word out about a particular franchise in the area and provide information about specials that might attract new customers. Loyalty and reward programs, referral programs, special promotions, and coupons are popular marketing methods used by franchises to keeping customers returning. Many franchisees are also active in local

community activities and participate in charitable organizations. This involvement can generate sponsorship in local activities that need to be supported by print.

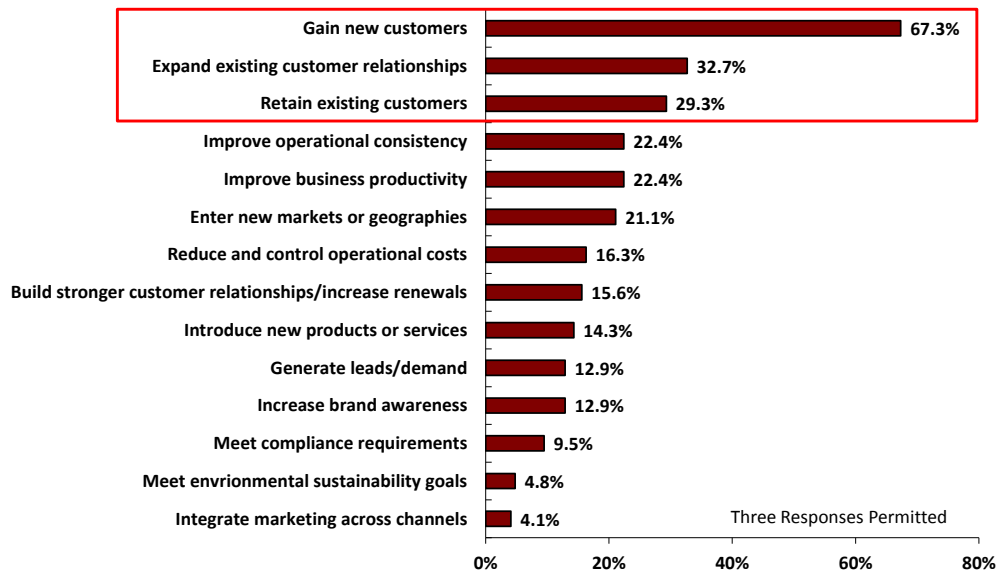
Marketing Priorities

Many franchises have comprehensive marketing plans in place for their owners that typically include some level of funding for traditional mass-media advertising campaigns, Internet advertising, public relations, and direct mail efforts. Even if franchisors provide national marketing, franchisees may be allowed—or even encouraged—to support local marketing initiatives on their own with certain restrictions.

According to InfoTrends’ research, franchises’ top marketing priorities include winning new customers, expanding customer relationships, and retaining customers. Franchises of all sizes pursue strategies to acquire customers, retain customers, expand share of wallet, and build customer loyalty. These activities occur at all levels of the franchise system.

Figure 2: Franchises’ Marketing Priorities

What are your top business marketing priorities for the next 12 months?



N = 147 Franchises

Source: *Capturing the SMB Marketing Automation Opportunity*, InfoTrends 2012

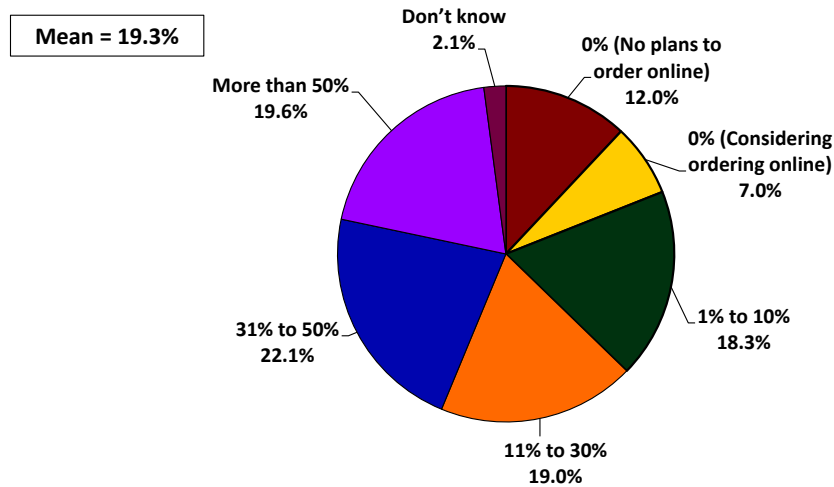
Addressing Local Marketing Challenges

A common marketing communication challenge for franchise systems is accommodating the diverse local marketing needs of franchises, while still maintaining brand control. These challenges can be addressed by providing franchises with solutions that enable online ordering of printed materials, variable data printing, regional versioning, and more.

Online ordering of print and promotional products is taking hold in the franchise market. According to InfoTrends' research, small and medium-sized franchises ordered about 19% of their print volume over the Internet. Although 12% of respondents were not ordering print online and had no plans to start, 7% of respondents were considering ordering online in the future.

Figure 3: Online Print Spending

What percentage of your business' total print volume was ordered via the Internet in the past year?



N = 147 Franchises

Source: *Capturing the SMB Marketing Automation Opportunity*, InfoTrends 2012

The top reasons that franchises didn't order print online included satisfaction with a provider that didn't offer online ordering or a belief that Internet-based transactions are were not cost-effective.

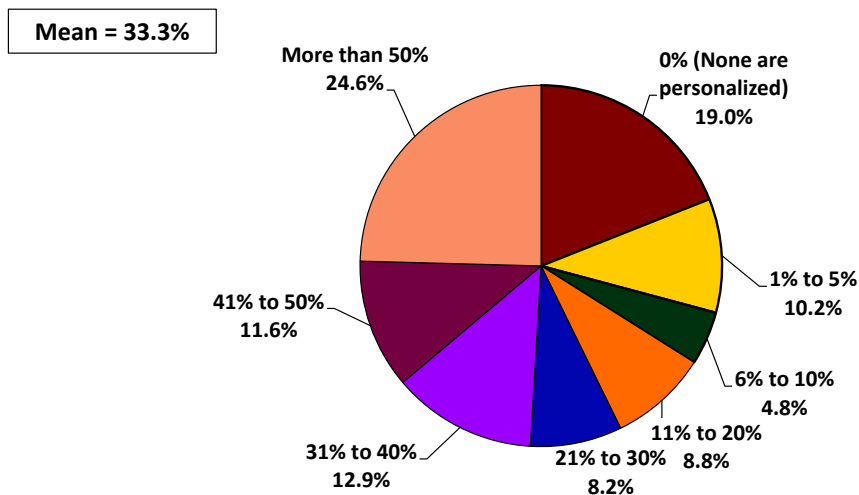
There is an opportunity to provide franchisors with customized, brand-compliant marketing materials through Web-to-print systems. These systems enable franchisees to view, select, and personalize a variety of corporate-approved collateral, including postcards, flyers, brochures, and print ads.

Franchisors are seeking providers that offer a complete approach to managing the marketing supply chain, where marketing and communication materials are produced when needed, in the exact quantities required, while complying with branding standards. The marketing supply chain is the group of suppliers that an organization relies on to produce marketing materials (e.g., print, promotional products, and point-of-sale) to aid in the sale of its products and services. Ordering communication and marketing products online as needed enables franchises to minimize inventory, reduce waste from material obsolescence, and achieve better brand control.

Investing in Personalization

According to InfoTrends’ research, franchises are investing in personalized promotional print. On average, small and medium-sized franchises reported that 33.3% of their promotional materials were personalized. In addition, 59.9% franchise respondents believed that personalization improved customer response rates.

Figure 4: Personalized Promotional Print Materials
 What percentage of your promotional print materials are personalized?

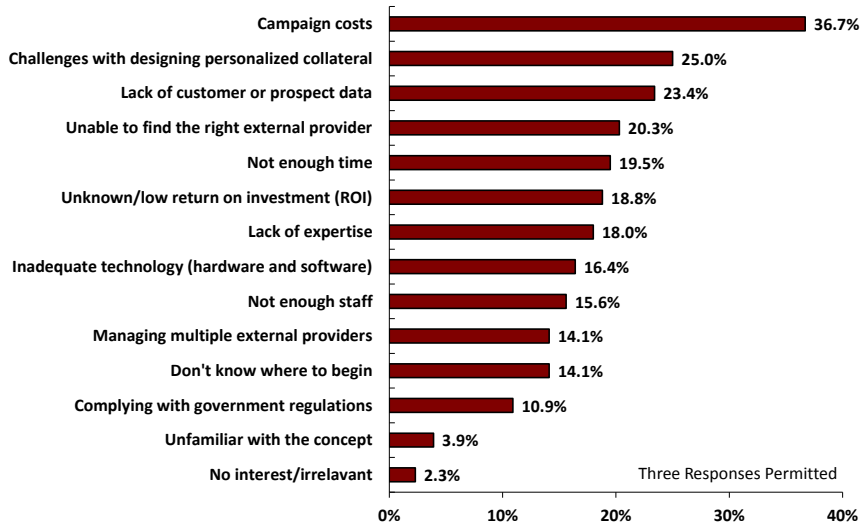


N = 147 Franchises
 Source: *Capturing the SMB Marketing Automation Opportunity*, InfoTrends 2012

Franchises’ top reasons for not personalizing more of their promotional materials included costs, challenges with designing personalized collateral, lack of data to drive personalized campaigns, and an inability to find the right provider.

Figure 5: Top Reasons for Not Using More Personalization

What are your business’ top reasons for NOT using more personalization in your promotional materials?



N = 128 Franchises

Source: *Capturing the SMB Marketing Automation Opportunity*, InfoTrends 2012

Tips for Selling to Franchises

Franchises are a key market for selling print and promotional products. This section includes some important recommendations for successfully selling to franchises.

Define and Scope the Opportunity

The Internet offers a wealth of information on franchises. Entrepreneurmagazine.com, FranchiseGator.com, Franchise.com, and the International Franchise Association are a few examples of the resources that can be leveraged to learn more about franchising, identify key market trends, and select customer targets. A more comprehensive list of resources is provided in the Appendix at the end of this document.

Websites covering the franchise market often include sections detailing individual franchises, including what they promise franchisees in their marketing materials. This information can be useful when attempting to identify service gaps and developing products to fill them.

Evaluate Targets

It is important to conduct research to determine the types of franchises to target. Key evaluation criteria include:

- System size based on numbers of units
- Sales revenue for the system
- Stability and growth
- Number of years in operation
- Market expansion status
- Best practice in the areas of franchisee support and training
- Environmental policy
- Social responsibility

Target Customers

Many franchise systems have purchasing cooperatives for advertising and marketing materials depending on their system. A solid strategy is to approach one or two franchisees in your market and prove your capabilities to those firms. Before approaching a franchisee, conduct research to determine how many locations are in a specific geographic area. If you can demonstrate your value, you have a high potential of gaining acceptance from a franchisor and many other franchisees in the system.

Almost all franchisors have operation teams that regularly visit each franchisee. Depending on their niche, those visits may occur once a year, once a quarter, or once/twice a month. At the same time, however, many of these teams are charged with enforcing compliance issues and standard operating procedures rather than teaching sales, marketing, and communications techniques. This presents an opportunity for print service providers and distributors to get in the door and to host marketing training events.

According to the Franchise Doctor website, many franchisees do not understand KPIs (key performance indicators). Showing a franchise how to measure important marketing KPIs and explaining how your services can improve their current status is a positive step to winning work. In addition, be prepared to quantify how your services will improve the performance and profitability of the franchisee's operation.

Checklist for Evaluating Customer Opportunities

Prospecting and selecting the customers that are best aligned to your service offering starts with solid research and an opportunity evaluation. The following question list, adapted from SmallBizViewpoints, provides a framework for evaluating the communication opportunities in franchise organizations. Many of the answers to these questions can be found on franchisors' websites and through sales discussions.

1. How much is the marketing/ad fund contribution per month? Are all territories required to provide the same contribution?
2. Which marketing avenues does a franchise use—direct mail, television, radio, billboard, newspaper, Internet?
3. How does the franchise website look in relation to competitors? Does the website support for customer ordering, menus, coupons, nutrition information, etc.?
4. Does franchise have a mobile application strategy?
5. Which types of customer loyalty programs has the franchise launched in the past—gift cards, frequent purchase, etc.?
6. How does the franchise divide marketing budget between general (nation- or region-wide) versus local (territory-wide) marketing?
7. What support does a franchise provide for local marketing specific to individual stores (e.g., marketing brochures, group purchasing)?
8. Does the franchise provide support for obtaining and analyzing a customer database?
9. How much influence do franchisees have in important marketing decisions? Is there a committee comprised of franchisees to provide input into marketing decisions?
10. Does the franchise seek approval/input from the franchisee before launching major marketing campaigns?
11. How is the franchise brand perceived in the minds of customers? Does the franchise introduce new products/marketing campaigns periodically to maintain its brand's strength?

InfoTrends' Opinion

Selling communication products and services to franchises can be a huge opportunity for print service providers. Franchises are everywhere and cover just about all markets. The breadth of franchised businesses enables print providers to expand in their current markets and penetrate new markets. Gaining franchisees as customers also provides a route to scale sales within the franchise system.

Franchises demand continuous marketing as well as vigilant brand control. These requirements align with many print service providers' offerings, including online ordering, variable data printing, and short run digital printing. Firms that offer a full-service approach to managing marketing efforts and take the time to learn about the market are in a prime position to win sales in the franchise market.

This material is prepared specifically for clients of InfoTrends, Inc. The opinions expressed represent our interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies. We believe that the sources of information on which our material is based are reliable and we have applied our best professional judgment to the data obtained.

Appendix: Franchise Market Resources

The Internet provides a wealth of resources for those who are interested in following the trends in the franchise market. Here is list of online resources to help keep up with these trends.

- **American Association of Franchisees and Dealers** (www.aafd.org)
- **Every Franchise** (www.everyfranchise.com)
- **Franchise Opportunities** (www.franchiseopportunities.com)
- **Franchise.com** (www.franchise.com)
- **Franchise-America** (www.franchise-america.com)
- **International Franchise Association** (www.franchise.org)
- **The Franchise Doctor** (www.franchisedoc.com)
- **The Wall Street Journal** (www.startup.wsj.com)

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Lisa Cross is the Associate Director for InfoTrends' Business Development Strategies service. She is responsible for conducting market research, supporting market forecast estimates, managing custom consulting projects, and reporting on industry events.

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