# Growing pains

**Corporately-owned chains lose their way more frequently than franchise networks. Tony Urwin explains why**

Text: Tony Urwin

In 1971, Seattle's Western Avenue started to fill with the irresistible aroma of roasting coffee. If you found its source, a small shop at No. 2000, you could have bought yourself a little piece of history. The scent was coming from the very first Starbucks.

The project of two teachers and a writer, Starbucks has long since grown from an 'indie' coffee supply store to a multinational behemoth and a global brand. The NASDAQ-listed Starbucks Corporation now boasts over 15,000 corporately owned locations worldwide, with another 25,000 in its sights.

A quick contrast between the early Starbucks cafes and today's Starbucks will explain why many experts are questioning whether the company can maintain its current dominance, let alone fulfil its lofty ambitions.

Until 1987, Starbucks sold only high quality beans and coffee-making equipment. It was not until the company bought entrepreneur Howard Schultz's Il Giornale coffee bar chain and rebranded them as Starbucks that the company actually sold brewed coffee.

The Starbucks that spread rapidly through the United States and Canada, into Japan in 1996 and the UK in 1998, were hip neighbourhood coffeehouses. The beans were roasted onsite and the drinks were made by hand. With a staff of knowledgeable, skilled baristas and a growing menu of inspired coffee drinks, Starbucks offered more than coffee: it offered an experience.

As it continued its expansion, Starbucks' Seattle headquarters began tinkering with its winning formula. It extended Starbucks' product offering to include cakes, cookies and muffins - which go well with coffee - and curiously, wraps and salads, which don't. Made off-site by suppliers and sold by baristas who had no part or knowledge of their preparation, Starbucks' food offering betrayed core values of 'freshness' and 'a home-made feel'.

Then the company really started to lose its focus. It became a merchandiser, and then a music label, pushing mugs, t-shirts and CDs in every store. Simply put, the company started selling the brand, but forgot about the coffee.

The death knell of the original Starbucks experience sounded loud and clear the day the company decided to introduce automated espresso machines. With the push of a button, the magic was gone.

Judging by the depth and scope of the changes, Starbucks' marketers and bean counters (excuse the pun) clearly met little or no resistance from shop managers. But why would they? Every Starbucks shop is run by an employee of Starbucks Corporation. They are paid to do the bidding of their employer.

After 10 years of strong growth, Starbucks is grappling with slowing sales growth and increased competition. With greatly improved coffee and complementary food offerings, McDonald's has become a direct competitor, as have other fast food retailers. Competing coffee chains (many of them franchised) and scores of independents have nibbled at Starbucks' market share by offering the authentic café experience that the company used to promise. By the end of last year Starbucks stock, once a sure bet, had declined by 42 per cent.

The company is still very profitable and has begun working to refocus the brand. They have their job cut out for them. The brand has compromised its association with authenticity and cool.

Now imagine if Starbucks had franchised its operations. There would be thousands of North American franchise owners and a score of international Master Franchise owners each looking after hundreds, if not thousands, of sub-franchisees. Every Starbucks shop would be under the care of a local owner who would have invested his or her own hard-earned money into their location, and would have undertaken painstaking market research. They would have a vested interest in knowing their customers and ensuring that their store held a special place in their hearts.

I have difficulty believing that the majority of franchise owners would have consented to automated machines. They would have anticipated the dismay of regulars at being handed an espresso that wasn't prepared by their favourite barista. I would venture that they would have also raised alarm at the dilution of their product offering and might had better ideas for popular add-ons than the executives back in Seattle. You could bet that the company would have had some very interesting annual franchise conferences.

Franchising can protect a brand as it grows. Plotting strategies for growth is not an easy business and it is all too easy to adopt measures that sound good in theory but which bomb in practice. Professional managers have the skills to keep a business running smoothly, but they are essentially yes-men and women. Few will jeopardise their salaries by resisting ill-considered directives from head office.

In contrast, franchise owners rely on customers, not head office for their income. They will be the first to shout at any perceived threat to the customer experience and their local market advantage. Dealing with franchise owners' concerns can be a challenge, but they are a vital check and balance on the franchisor's actions. Many a brand has been steered to success by the voices of its franchise owners.

Franchising also does a great job of keeping a business focused on what it does best. You will notice that most of businesses egregiously guilty of diluting their brands are not franchises. Franchising is, by definition, the sale of defined business systems, practices and trademarks to third parties. Crucial to the franchise development process - certainly the professional development programmes offered by Franchise Development Services Northern and its sister offices - is a clear definition of the business, a streamlining and systematisation of its practices and an enshrining of the business's core values. This well-defined business is what is then sold on to franchise buyers.

While a franchised business can and should evolve over time, it would be impossible to transform a premium coffee shop into a fast food restaurant/CD reseller with an accent on coffee without the implicit consent of its franchise owners. The franchise owners were sold a premium coffee shop and would fight to keep it that way - especially if that is what made it popular with its customers.

When I was last in Seattle, I visited the original Starbucks in Pike Place Market (the shop moved from Western Avenue in 1976). It was not hard to savour the feel of the place and its coffee. However, other than the ubiquitous logo, it was hard to see what this epicentre of hip shared in common with the Starbucks outlet in my local Sainsbury's in Altrincham. If only the company had franchised, I might have spared myself the expense of a proper bean-to-cup machine for my office.

Consider franchising as a way of protecting your business as it grows. Like coffee, it can help keep you from falling asleep at the wheel. •

**FOR MORE INFORMATION:**

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