

To Grow or Not? (via Franchising)

The car brand, Krik, entered the UK market through franchised dealerships 7 years ago. Initially it had a very limited product range of reliable, if unexciting, low priced cars. It has since extended its models (and intends to continue to do so) and sales and is gaining a solid brand reputation.

The franchisee in Lancaster is an established car retailer who, amongst a portfolio of car dealerships, operates two Krik sales outlets across a large but rather sparsely populated geographic area it was originally granted. Krik now want an additional sales outlet in the district.

At least initially, it is calculated that the effect will be that this will only incrementally increase sales – but existing customers (or those who would have bought a Krik anyway) will spread across the three outlets for both purchases and also for servicing (also a profit generating activity).

The third salesroom is likely to stimulate some additional sales, but this will initially be limited. For the franchisee, this will substantially increase their costs, will generate some additional income, but will reduce profitability.

The franchisor will make some extra sales (with little by way of extra costs) and is also concerned to scale up their retail presence to meet their long-term growth strategy.

Other franchisees, especially those bordering the Lancaster district territory are more enthusiastic to increase outlets than is the franchisee in the Lancaster District. The Lancaster dealer believes the extra investment makes no sense given the rural character of much the territory.

Student Discussion Questions

1. List the reasons:

A. Why the brand owner might want to increase sales units and

B. Why the franchisee might NOT want to invest in additional outlets. (Note: Use your marketing knowledge to include reasons that are not explicitly mentioned above.)

2. Taking into account both lists prepare a briefing document for a meeting of the two parties. Think about what points you want to put across to achieve your objectives in the meeting and also how you will address the points likely to be raised by your opposite number. You can approach this on behalf of either the franchisee or the brand owner.

3. Working with a student/group who have prepared the case for the opposition, role-play your parts. At the end of the role-play exercise, note which arguments you found most convincing, and which caused you to adapt your stance.