location with little more than a good idea. Over the past 12 months, it had generated sales of $1.5 million, a ten-fold increase from the year before. Better yet, Haas was projecting sales to grow as much as 40 percent in 2008, a pace he expected to maintain for several years to come.

But even as the metaphorical champagne flowed, Haas knew that the outlook for Avalon wasn't all wine and roses. Serious issues were beginning to emerge, and Haas's company was struggling to keep up as demand for its products and services began to outstrip the company's capacity. Much to Haas's chagrin, Avalon was starting to turn down business. Fortunately, Haas's market position was protected for the time being as there were no direct competitors in Avalon's niche to snatch the clients the company couldn't take on right away. But Haas was certain that it was only a matter of time before someone would try. The only solution to his problem was to expand Avalon, fast. The question was, how—and where?

"I'm worried about the near future," Haas would say when asked about his business. "What happens when firms in our space start to encroach on our turf? We may be growing at 40 percent a year, but what happens five years down the road if our competitors are growing at 400 percent a year?"

Haas's capacity problems stemmed from the fact that he'd had a hard time convincing software engineers to leave major industry centres and move to Newfoundland to join his company. Few that had been trained in North America or Europe had been tempted by his overtures, mainly because they could earn higher salaries and work for larger, more prestigious companies in tech-savvy cities like Ottawa and San Francisco. Avalon had attracted international interest from engineers in developing countries, such as India and China. But Haas—a native Newfoundlander who'd spent 12 years in Ottawa with Nortel Networks and PMC Sierra before returning home to start Avalon—worried that most of these candidates were more interested in getting to Canada and acquiring citizenship than in working specifically for Avalon. They might be willing to start out in St. John's, but he feared they would leave for other cities as soon as they acquired legal status to remain in the country. Understandably, Haas was reluctant to invest in a hire only to see that person move on as soon as the opportunity presented itself.

One solution to his problem was to open a second Avalon design centre in an established tech hub, where it would be in the middle of existing talent pools. But where? Haas had been investigating the issue and had yet to come to any firm conclusions. He could, for instance, open a design centre in California's famed Silicon Valley, but that would be expensive due to the salary expectations of local engineers, whose skills were already in high demand and richly compensated. A cheaper option would be to open an office in an Asian hub. But whatever cost savings Haas would realize overseas would be offset by lower productivity. A third option, going to Ottawa, would strike a balance between cost and productivity, but even then Haas would have to find a manager to run the office while he managed headquarters in St. John's. No matter where he was located, he would need someone he could trust fully and completely.

Even if Haas resolved these issues, the very nature of Avalon's work would make it difficult to move some of its operations. Avalon develops what are known as "IP cores." Essentially, these cores are bits of software that enable inexpensive, generic microchips to perform customized functions. This allows firms in the data-transfer business, such as Nortel or Cisco, to buy off-the-shelf chips—at less cost than buying or developing their own custom chips—and then program them in ways to differentiate their hardware products from those of competitors. The work is highly collaborative, Haas says, meaning that it would be difficult for Avalon to function with geographically dispersed teams. And if this is true for branching out in Canada, it's doubly so for setting up in another country. "We need to consider factors like cultural proximity," he says. "We may speak the same language as engineers in other countries, but we rely on different expressions and have different expectations."

If Haas had one advantage as he confronted his expansion issues, it was his familiarity with the challenges of running a software company in a region better known for its troubled fishery and booming energy sector than its technological prowess. He had already overcome a number of them in getting Avalon this far. When it came to financing his new venture back in 2004, for example, Haas was certain he was onto a good thing and he saw the potential for decades of growth. But because his idea tapped a new area of expertise—and because he was proposing an unusual business for Newfoundland—he found it difficult to attract investors.

Tenacity paid off, though, and Haas was eventually able to secure government financing, using his personal investment in Avalon as leverage, as well as the company's acceptance into a local tech business incubator. Within a year, Avalon released its first product. Before long it was winning customers with large and deep pockets. Soon, however, Avalon found itself operating at maximum capacity—and then beyond, leaving Haas to greet the new year in a quandary: "We just can't find enough qualified engineers. Should we only expand in St. John's or should we open an office in Ottawa, or Silicon Valley or Asia? We're growing fast, but we could be growing much faster."

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C·H·A·P·T·E·R

13

FRANCHISING

Franchisees are chosen based on a number of criteria, including entrepreneurial drive.

Don Schroeder
President and CEO, Tim Hortons

It's possible, if the economics are right . . . When you build a great franchise it can be a lot of fun.

Dan Aykroyd
Actor

RESULTS EXPECTED

Upon completion of this chapter, you will be able to:

1. Understand what franchising is and discuss the nature of the role of the franchisor and the franchisee.
2. Explore the process of becoming a franchisor.
3. Compare the profile of a successful franchisee to the profile of a successful entrepreneur.
4. Describe a basic screening method for evaluating franchises with a higher success probability.
5. Analyze the franchise relationship model and its use as a guide for developing a high-potential franchise.

INTRODUCTION

In this chapter we will explore what franchising is and how well it fits the Timmons Model definition of entrepreneurship. We will consider the scope of franchising and examine the criteria for determining a franchise's stature, from the perspective of an existing or prospective franchisor. We will present several templates and models that can be helpful in conducting due diligence on a franchise opportunity.

Let us consider how well franchising fits our definition of entrepreneurship from Chapter 1. Just as the focus of our definition of entrepreneurship is opportunity recognition for the purpose of wealth creation, so too is the focus of franchising. Franchising offers a thoughtful system for reshaping and executing a delivery system designed to extract maximum value from the opportunity. Just as opportunity, thought, and action are essential elements of an entrepreneurial venture, so too are they important components of a franchise opportunity. Franchising also fulfills our definition of entrepreneurship because each partner understands the expectation for wealth of the other and they work together toward that goal; their "bond" is sealed as partners in the franchise alliance.

Franchising is, at its core, a partnership between two organizations, the franchisor and the franchisee. The successful franchise relationship defines and exploits an opportunity as a team. The franchisor is the concept innovator who grows by seeking partners or franchisees to operate the concept in local markets. A franchisor can be born when at least one company store exists and the opportunity has been beta tested. Once the concept is proven, the franchisor and the franchisee enter into an agreement to grow the concept based on a belief that there are mutual advantages to the alliance. The nature of these advantages is defined by the ability of the partners to execute a particular aspect of the opportunity for which each is respectively better suited than the other. The heart of franchising is entrepreneurship, the pursuit of and intent to gain wealth by exploiting the given opportunity. The unique aspect of franchising is that it brings together two parties that both have individual intentions of wealth creation through opportunity exploitation, but who choose to achieve their goals by working together. Because franchising aligns the different skill sets and capabilities of the franchisor and franchisee as a partnership, the whole of a franchise opportunity is greater than the sum of its parts.

At its most fundamental level, franchising is a large-scale growth opportunity based on a partnership rather than on individual effort. Once a business is operating successfully, then according to the Timmons Model, it is appropriate to think about franchising as a growth tool. The sum of the activities between the partners is manifest in a trademark or brand. The mission of the entrepreneurial alliance is to maintain and build the brand. The brand signals a price–value relationship in the minds of customers. Revenue is driven higher because the marketplace responds to the brand with more purchases or purchases at a higher price than the competition.

JOB CREATION VERSUS WEALTH CREATION

As a franchise entrepreneur, we can control the growth of our franchise opportunity. For those whose life goal is to own a pizza restaurant and earn a comfortable income, the opportunity is there. Franchising allows us to do this, but it also allows us to build 30 pizza restaurants and to participate fully in the wealth-creation process. One strength of franchising is that it provides a wide breadth of options for individuals to customize opportunities to meet their financial goals and business visions, however conservative or grandiose.

The ability to create wealth in any venture starts with the initial opportunity assessment. For example, a franchise company may decide to limit its geographic territories in terms of the number of stores. Therefore, the expansion market is limited from the start for potential franchisees. Even if franchisees work hard and follow all the proven systems, they may be buying a job versus creating wealth.

But some companies are designed to reward successful franchisees with the opportunity to buy more stores in a particular market or region. Franchisees who achieve prosperity with single units are rewarded with additional stores. The entrepreneurial process is encouraged, and wealth is created.

Much of the goal of *New Venture Creation* is to increase the odds for success in a new venture and increase its scope. Franchising can be an excellent vehicle for growth for the franchisor.

FRANCHISING: A STORY OF ENTREPRENEURSHIP

The franchise entrepreneurial spirit in Canada has never been more alive than today. More than 900 different brand names with 76,000 outlets populate the marketplace; these businesses make up 20 percent of all retail sales nationwide, approximately $100 billion. In Canada, a franchise opens every two hours every day of the year.[1] The belief that franchising can be an exciting entrepreneurial venture is supported by the continued success of established franchise systems, the proliferation of new franchises, and the profitability reported by franchisors and franchisees.[2] These statistics hint at the scope and richness that franchising has achieved in a relatively short period. The process of wealth creation through franchising continues to evolve as we witness an increase not only in the number of multiple outlet franchisees,[3] but also in the number of franchisees that operate multiple outlets in different franchise systems. Exhibit 13.1 reveals several aspects of contemporary Canadian franchises.

Shoppers Drug Mart boasts having over 1,000 stores. The franchising concept was to have pharmacists own and operate their own stores. Pharmacist Murray Koffler inherited two stores at the age of 20. In 1962 he had grown to 17 pharmacies and adopted the name Shoppers Drug Mart. Through acquisitions and aggressive expansion the brand grew to the presence it has today.

Home Hardware is another chain whose footprint has grown to a formidable level—over 1,000 stores strong. In 1964, 122 independent Ontario hardware retailers banded together to form a "dealer-owned cooperative—an answer to the challenge posed by 'big box' retailers who enjoyed the advantage of direct-from-manufacturer buying power."[4] Like Shoppers Drug Mart it offers a number of store brands in addition to those of popular manufacturers.

Cara Operations Ltd. provides catering services to airlines and operates Harvey's, Swiss Chalet, Kelsey's, Milestone's, Montana's, and formerly Outback and Second Cup. The corporate vision is to become "Canada's leading branded restaurant and airline services company."[5] Cara was founded by the Phelan family in 1883. The name "Cara" is derived from the first two letters of the words "Canadian Railway"—the enterprise's initial focus. The company went public in 1968 and later was taken private in 2004.

Anyone considering and exploring entrepreneurial opportunities should give serious consideration to the franchising option. As franchisor, this route can be a viable way to share risk and reward, create and grow an opportunity, and raise human and financial capital.

FRANCHISING: ASSEMBLING THE OPPORTUNITY

As we saw in earlier chapters, the Timmons Model identifies the three subsets of opportunity as market demand, market size and structure, and margin analysis. The franchise organization must understand the nature of demand both as it resides in the individual consumer and in society. At the most fundamental level, the primary target audience is the defining quality of the opportunity recognition process. Without a customer, there is no opportunity; without an opportunity, there is no venture; and without a sustainable opportunity, there can be no franchise.

As we discussed earlier in the chapter, our goal is to look at franchising as it presents opportunities for both franchisees and franchisors. We will now investigate several aspects of franchise opportunity recognition: primary target audience identification; service concept;

EXHIBIT 13.1 Canadian Franchise Facts

Average franchise fee	$27,500
Average renewal fee	$3,000 to $5,000*
Average franchisee investment	$175,000
Typical length of franchise agreement	5 years**
97% of franchises opened in the last 5 years are still in business, 86% are under the original ownership†	
Typical royalty rate	5 to 8%
Typical advertising rate	3 %

Source: Canadian Franchise Association, www.cfa.ca.

* www.cfa.ca/print/Publications_Research/Tutorials/tutorial16.aspx.

** 10 and 20 year agreements are also common, www.ca.ca/FAQ/.

† www.franchiseek.com/Canada/Franchise_Canada_Statistics.htm/.

service delivery system design; training and operational support; field support, marketing, advertising, and promotion; and product purchase provision. Prospective franchisors should understand the nature and quality of each of these franchise components. Those considering growth through franchising must pay attention to the detail of their system offering.

Primary Target Audience

Defining the target customer is essential because it dictates many diverse functions of the business. Most important, it measures the first level of demand. Once the primary target audience is defined, secondary targets may be identified. The degree of market penetration in the secondary target is less than that of the primary target. Although measuring market demand is not an exact science, a franchisor must continually collect data about its customers. Even after a franchise is established, the franchisor and franchisee compare local market demographics with national profiles to decide the potential of the local market in terms of the number of outlets that can be developed. Revenue projections are made from the definition of the target audiences and the degree of market penetration that can be expected based on historical information. Three major areas of data collection can be integral to refining the primary target audience.

Demographic Profiles A demographic profile is a compilation of personal characteristics that enables the company to define the "average" customer. Most franchisors perform market research as a central function, developing customer profiles and disseminating the information to franchisees. That research may include current user and non-user profiles. Typically, a demographic analysis includes age, gender, income, home address (driving or walking kilometres from the store), working address (driving or walking kilometres from the store), marital status, family status (number and ages of children), occupation, race and ethnicity, religion, and nationality. Demographics must be put into context by looking at concept-specific data such as mean number of automobiles for a Jiffy Lube franchise or percentage of disposable income spent on clothes for a Mexx franchise.

Psychographic Profiles Psychographic profiles segment potential customers based on social class, lifestyle, and personality traits. Economic class and lifestyle address such issues as health consciousness, fashion orientation, or being a "car freak." Personality variables such as self-confident, conservative, and independent are used to segment markets.

Behavioural variables segment potential customers by their knowledge, attitude, and use of products to project usage of the product or service. By articulating a detailed understanding of the target market and why that consumer will buy our product or service, great knowledge of the competitive landscape is gained. Why will a consumer spend their money with us instead of where they currently find value?

Geographic Profiles The scope of a franchise concept can be local, regional, national, or international. Regions are divided by population density and described as urban, suburban, or rural from under 5,000 to 4 million or more.

The "smart" franchise uses the ever-growing system of franchisees and company outlets to continually gather data about customers. This helps dynamically shape the vision and therefore the opportunity. The analysis of system data must include a link to the vision of the concept and to what seems possible for the vision. For example, if we launched an earring company a generation ago, we could have defined the target market as women ages 21 to 40, and the size of the market as the number of women in this age group in Canada. But perhaps looking beyond the existing data and anticipating the larger market that now exists can shape our vision. The target market for earrings could be defined as women and men ages 12 to 32, with an average of three earrings (or more properly piercings) per individual, not two. The identification of the target market requires that we combine demographic data with our own unique vision for the venture.

Theory into Practice: Market Demand, a Moving Target for Radio Shack

Target markets are dynamic, often metamorphosing very quickly. Radio Shack (later known in Canada as "The Source by Circuit City" and after Circuit City declared bankruptcy in early 2009, became just "The Source" under Bell Canada ownership) had to change its business to reflect the shift in its target market. In the 1970s and 1980s, Radio Shack grew by addressing the needs of technophiles—young men with penchants for shortwave radios, stereo systems, walkie-talkies, and the like. The national retail chain supplied this audience with the latest gadgets and did very well.

Then, starting in the early 1990s, technology became more sophisticated. Personal electronic equipment began to include cellphones, handheld computers, and electronic organizers. The market for these products was expanding from a smaller group of technophiles to a larger group of middle-age males who loved gadgets and who had more disposable income. Yet Radio Shack remained Radio Shack. Its audience dwindled while the personal electronics market boomed.

In the early 1990s, Radio Shack refocused its business to target this new demographic. Its advertising addressed the needs of the 44-year-old upper-middle-class male versus the 29-year-old technophile. That 29-year-old who used to shop at Radio Shack was now 44! He was not going to make a radio, but he would buy a cellphone or GPS for his vehicle. Radio Shack made dramatic changes in its marketing and inventory. As a result, it made dramatic changes in its profitability. Under Bell Canada, The Source would drop its exclusivity agreement with Rogers Communications at the end of 2009 and in 2010 begin promoting the Bell line of products and services.

The focus on primary target audience development as the core to franchise opportunity recognition is essential to determine the consumer appeal of a franchise and to establish validity of the opportunity. We will consider a set of criteria that will help define due diligence in assessing how a franchise has exploited the opportunity. This discussion holds value for an overall understanding of franchising for existing franchisors and potential franchisors alike.

EVALUATING A FRANCHISE

Before looking at the detail of a franchise offering, the prospective franchisee must mine an offering from the 900 franchises in Canada. Although the next section is appropriate for prospective franchisees, the savvy franchisor will use this information to better craft his/her franchise offering for potential franchisees.

Exhibit 13.2 provides a franchise screening template designed to make a preliminary assessment of the key variables that constitute a franchise. The exercise is crafted to help map the risk profile of the franchise and highlight areas that will most likely need further due diligence. If the following criteria are important to the potential franchisee, then they also provide a map of the growth and market positioning objectives a stable franchisor should be pursuing.

This exercise is not designed to culminate in a "go or no go" decision. Rather, prospective franchisees should use it to help evaluate if the franchise meets their personal risk/return profile. Franchisors should also review the exercise to examine the risk signals they may be sending to prospective franchisees. It is especially important to understand this risk profile in the context of the alternative investments a prospective franchisee can make.

EXHIBIT 13.2 Franchise Risk Profile Template

Criteria	Low Risk Average Return 15–20%	Acceptable Risk Incremental Return 30%	High Risk Marginal Return 40–50%	Extreme Risk Large Return 60–100%
Multiple Market Presence	National	Regional	Provincial	Local
Outlet Pro Forma Disclosed or Discerned	Yes, 90% + apparently profitable	Yes, 80% apparently profitable	Yes, 70% + apparently profitable	No, less than 70% profitable
Market Share	No. 1 and dominant	No. 1 or 2 with a strong competitor	Lower than No. 2	Lower than No. 3 with a dominant player
National Marketing Program	Historically successful creative process, national media buys in place	Creative plus regional media buys	Creative plus local media buys	Local media buys only
National Purchasing Program	More than 3% + gross margin advantage in national purchasing contract	1–3% gross margin advantage versus independent operators	Regional gross margin advantages only	No discernible gross margin advantages
Margin Characteristics	50% gross + margin 18% + net outlet margin	40–50% gross margin 12–17% net outlet margin	30–40% gross margin less than 12% net outlet margin	Declining gross margin detected, erratic net outlet margin
Business Format	Sophisticated training, documented operations manual, identifiable feedback mechanism with franchisees	Initial training and dynamically documented operations manual, some field support	Training and operations but weak field support	Questionable training and field support and static operations
Term of the Licence Agreement	20 years with automatic renewal	15 years with renewal	Less than 15 years or no renewal	Less than 10 years
Site Development	Quantifiable criteria clearly documented and tied to market specifics	Markets prioritized with general site development criteria	General market development criteria outlined	Business format not tied to identifiable market segment(s)
Capital Required per Unit	$15,000–$25,000 working capital	Working capital plus $50,000–$100,000 machinery and equipment	Working capital plus machinery and equipment plus $500,000–$1,000,000 real estate	Erratic, highly variable, or ill-defined
Franchise Fee and Royalties	PDV* of the fees are less than the demonstrated economic advantages (reduced costs or increased revenue) of the franchise versus stand-alone		PDV of the fees are only projected to be less than the expected economic advantages (reduced costs or increased revenue) of the franchise versus stand-alone	PDV of the fees are not discernibly less than the expected value of the franchise

*PDV is an abbreviation for present discounted value. If franchising is a risk-reduction strategy, then the discount of future revenue should be less. Concurrently, the economies of scale in marketing should increase the amount of revenue a franchise can generate versus a "stand-alone" operation.

FRANCHISOR AS THE HIGH POTENTIAL VENTURE

As Ron Joyce, Tim Horton's partner in their business demonstrates, becoming a franchisor can be a high potential endeavour. Growth and scale are the essence of the franchise mentality. Throughout this chapter we have taken the approach of franchising as entrepreneurial behaviour by the franchisor. In this section, we focus principally on franchisors

and their rewards. In a study of *publicly traded franchisors*, the size and scope of the firms that achieved public capital is impressive. The capital marketplace has rewarded many franchisors, which have measured well against the criteria for a high potential venture franchise. They, in turn, have performed well vis-à-vis return to shareholders. The performance of public franchisors generally exceeds that of the TSX index. The relative buoyancy of franchisor performance can be attributed to being heavily weighted in the food category. During a recession, when household budgets are tight, consumers seek out dining establishments that offer the best value, the primary driver of many food-based franchise organizations.

Even more interesting are those exceptional performers among the high achieving franchisors. Take, for example, the quintessential Canadian franchise, Tim Hortons. Surpassing McDonald's, Tim Hortons is the largest Canadian food service organization with more than 3,300 restaurants. Its infrastructure includes a network of suppliers and resources that allows it to achieve economies of scale and offer great value to customers. In 2008, system-wide sales reached nearly $2 billion, operating income approached $500 million, and earnings per share were strong.[6]

KEY COMPONENTS OF A FRANCHISE OFFERING

In this section, we describe the major aspects of delivering a franchise system. It is excellence in both concept and delivery that has created wealth for the franchisors in publicly traded companies. We have analyzed the features that propel the high performance franchisor to exceptional return. The excellent franchisor supports the franchisee, and the symbiotic nature of the relationship leverages return for both partners. After prospective franchisees narrow their search for a franchise (by using the screening guide among other activities), they should begin a detailed analysis of the exact nature of a franchise. Franchisors should note the following in terms of how they might construct their offerings, knowing that prospective franchisees will conduct a detailed due diligence around these franchise components.

Service Delivery System

The road map for marshalling resources for the franchise comes from establishing the service delivery system. The opportunity dictates that certain tasks are performed to meet consumer demand. The assets put into place to meet these demands are largely the resources needed to launch the concept. In the franchise alliance, the franchisor develops a method for delivering the product or service that fills customer demand. In its most basic essence, the service delivery system is the way in which resources are arrayed so that demand can be extracted from the marketplace. This service delivery system has to be well defined, documented, and tested by the company or prototype operation. The end result of the organization, execution, and transfer of the service delivery system is the firm's competitive advantage.

The Timmons Model first looks at opportunity assessment, which demands a clear understanding of the target market and customer. Next it looks at resource marshalling or, in franchising, the establishment of the service delivery system. The service delivery system is the fundamental means by which customers will be served, and the fashion, often proprietary in design, in which the service delivery resources are arrayed can create competitive advantage in the marketplace. In franchising, this aspect is sometimes called the *business format*. A successful service delivery system's form and function will reflect the specific needs of the target customer. Highly successful and visible examples of business format innovations are the drive-through in fast-food restaurants and the bi-level facilities in quick-oil-change facilities. Every franchise has a well-defined service delivery system, however overt or transparent it may seem to an outside observer.

Because the service delivery system is truly the essence of the successful franchise, the detail given to it should not be underestimated. For the concept innovator, the common phrase, "The devil is in the details," never takes on more meaning than when designing the service delivery system for the franchise. Stephen Spinelli can corroborate this fact from experiences while expanding the Jiffy Lube franchise. One particular component of Jiffy Lube's expansion plans paints a vivid picture as to the intricacy of the development of the service delivery system and reveals what a great benefit this design paid over time.

Jiffy Lube franchises must meet specific location criteria: high volume of car traffic, side of the street located for inbound or outbound traffic, high profile retail area, and the far corner of any given street or block, among other requirements. Through trial and error, Jiffy Lube has determined the optimal location of the structure on any given property. Once these aspects are met, the building specifications follow. Structural specifications regarding the angle of the building and the width, depth, and angle of the entrance allow the optimal number of cars to stack in line waiting for the car in front to complete the service. On several occasions, facilities that met location criteria were failing to perform as expected. Analysis of the situation determined the bend in the driveway was too sharp, preventing customers from driving their cars completely into the line and giving the inaccurate impression that the lot was full. Driveways were adjusted to accommodate an increased number of cars waiting for service.

This same level of refinement and detail orientation is encouraged for concept innovators while looking at their conceptual and actual service delivery system. Unless examined under a microscope, essential components of the service delivery system will be missed, deteriorating the value of the franchise. Jiffy Lube's experience also reinforces the benefits of a beta site, providing a real-world laboratory that can be adjusted and modified until the outlet reaches optimal performance.

Another part of the complete Jiffy Lube service delivery system was the design of the maintenance bay. Considering the limitations inherent in the use of hydraulic lifts, Jiffy Lube faced the dilemma of providing 30 minutes of labour in only 10 minutes. To deliver this 10-minute service, three technicians would need to work on a car at once without the use of a lift. This quandary led to the design of having cars drive into the bay and stop above an opening in the floor. This allowed one technician to service the car from below, another to service the car underneath the hood, and a third to service the car's interior. Without developing such a disruptive system, Jiffy Lube would not have been able to succeed as it did.

The soundness of the decision to use the drive-through/bi-level system was confirmed when competitors, gas stations and car dealers, failed to deliver on offering a "quick lube" using hydraulic lifts and traditional bays. The sum of Jiffy Lube's intricately designed parts created the value of the service delivery system. Such is the level of detail needed for a service delivery system to deliver both value to the customer and cost efficiencies to the operator. In much the same way, the following example highlights the specific design components of the service delivery system that create value.

Training and Operational Support

Formal franchisor training programs transfer knowledge of the service delivery system to the franchisees, both managers and line workers. Continuous knowledge gathering and transfer is important both before launch and on an ongoing basis. The licence agreement must define the specific form in which this franchisor responsibility will be performed. It should extend significantly beyond a manual and the classroom. Training will vary with the specifics of the franchise, but it should include organized and monitored on-the-job experience in the existing system for the new franchisee and as many of the new staff members as the franchisor will allow. Established and stable franchise systems such as Jiffy Lube and Tim Hortons require such operational experience in the existing system for as long as a year before the purchase of the franchise; however, this level of dedication to the franchisee's success is not the norm. Once the franchise is operational, the franchisee may be expected to do much or all of the on-site training of new hires. But as we will discuss in the next section, field support from the franchisor is often a signal of franchise stability and a reflection of the strength of the franchise partnership. Manuals, testing, training aids such as videos, and certification processes are often provided by the franchisor as part of this ongoing field support.

Theory to Practice: The Service Delivery System
How Wendy's Used Its Business Format to Enter a "Saturated" Market

In 1972, Dave Thomas entered what many experts called a crowded hamburger fast-food market. His concept was to offer a "Cadillac hamburger" that was hot, fresh, and delivered more quickly than the competitions'. To execute Thomas' mission, Wendy's introduced the first drive-through in a national fast-food chain. Because Wendy's menu offered double and triple patties in addition to the traditional single-patty hamburger, its kitchens were designed to mass-produce hamburgers and deliver them to the front counter or drive-through window with minimal effort. To ensure a cooked just-in-time hamburger, each Wendy's restaurant included a large front window that enabled grill cooks (who were placed in clear view of the customer, not in a rear kitchen) to observe the flow of customers onto the premises.

Notwithstanding the huge market share owned by McDonald's and Burger King, Wendy's was able to successfully enter the fray because of the manner in which it arranged its resources to create a competitive advantage. In Wendy's, the sum of the intricacies—the drive-through window, the position of the cooks and kitchen, and the double and triple patties—allowed the chain to compete and prosper in the fast-food hamburger market.

As discussed previously, the trade name and trademark are the most valuable assets in a franchise system. A franchisee's success rests soundly on the sales of products that are based on the brand equity and strength of the franchisor. As important as a sound service delivery system design is to the concept's foundation for success, the prospective training regimen is equally important. Without appropriately instructed individuals, an exceptional product will never reach the consumer's hands. As such, a poor training program will inevitably dilute the standardized, consistent delivery of the product and eventually erode the brand's value.

Field Support

Akin to the training program mentioned above is ongoing field support. This will take at least two forms, one in which a franchisor's representative will visit the franchisee's location in person, and the other in which the franchisor will retain resident experts in each of the essential managerial disciplines for consultation at the corporate headquarters. Ideally the licence agreement will provide for scheduled visits by the franchisor's agents to the franchisee's outlet with prescribed objectives, such as performance review, field training, facilities inspection, local marketing review, and operations audit. Unfortunately, some franchisors use their field role as a diplomatic or pejorative exercise rather than for training and support. The greater the substance of the field function, the easier it is for the franchisee to justify the royalty cost. Additionally, in the litigious environment in which we presently live, a well-documented field support program will mute franchisee claims of a lack of franchisor support.

One means of understanding the franchisor's field support motive is to investigate the manner in which the field support personnel are compensated. If field staff is paid commensurate with franchisee performance and ultimate profitability, then politics will play a diminished role. Key warning signs in this regard are when bonuses are paid for growth in the number of stores versus individual store growth, or for product usage (supplied by franchisor) by franchisee. Clearly, as with the training program prescribed by the franchisor and agreed to by the franchisee, a quality field support program is another integral factor to success, and a poor support program will eventually become evident.

Marketing, Advertising, and Promotion

Marketing activities are certainly one of the most sensitive areas in the ongoing franchise relationship because they imprint the trade name and trademark in the mind of the consumer to gain awareness—the most important commodity of the franchise. If the delivery of the product validates the marketing message, then the value of the franchise is enhanced, but if it is not congruent, then there can be a detrimental effect at both the local and national level. As outlet growth continues, marketing budgets increase and spread across the growing organization, thereby optimizing the marketing program.

Generally, marketing programs are funded and implemented at three different levels: national, regional, and local. A national advertising budget is typically controlled by the franchisor and each franchisee contributes a percentage of top-line sales to the fund. The franchisor then produces materials (television, radio, and newspaper advertisements; direct-mail pieces; and point-of-sale materials) for use by the franchisees and, depending on the size of the fund, also buys media time or space on behalf of the franchisees. Because it is impossible to allocate these services equally between franchisees of different sizes across different markets, the licence agreement will specify the use of "best efforts" to approximate equal treatment between franchisees. Although "best efforts" will invariably leave some franchisees with more advertising exposure and some with less, over time this situation should balance itself. This is one area of marketing that requires careful monitoring by both parties.

Regional marketing, advertising, and promotion is structured on the basis of an area of dominant influence (ADI). All the stores in a given area of dominant influence (e.g., Winnipeg) would contribute a percentage of their top-lines sales to the area of dominant influence advertising cooperative.[7] The cooperative's primary function is usually to buy media using franchisor-supplied or -approved advertising and to coordinate regional site promotions. If the franchise has a regional advertising cooperative requirement in the licence agreement, it should also have standardized ADI cooperative bylaws. These bylaws will outline such areas as voting rights and expenditure parameters. Often a single-store franchisee can be disadvantaged in a poorly organized cooperative, whereas a major contributor to the cooperative may find his voting rights disproportionately low in any given cooperative.

The third and final scenario for marketing is typically dubbed local advertising or local store marketing. At this level, the franchisee is contractually required to make direct expenditures on advertising. There is often a wide spectrum of permissible advertising expenditures, depending on the franchisor guidelines in the licence agreement; unfortunately, the licence agreement will probably not be specific. Franchisors will try to maintain discretion on this issue for maximum flexibility in the marketplace, while franchisees will vie for control of this area. Company-owned stores should have advertising requirements equal to those for the franchised units to avoid a franchisor having a free ride; in this regard, historical behaviour is the best gauge of reasonableness.

The franchisor should monitor and enforce marketing expenditures. For example, the customer of a franchisee leaving one area of dominant influence and entering another will have been affected by the advertising of adjacent regions. Additionally, advertising expenditures not made are marketing impressions lost to the system. When this happens, the marketing leverage inherent in franchising is not optimized.

Supply

In most franchise systems, one major benefit is bulk purchasing and inventory control. In the licence agreement, there are several ways to account for this economy of scale advantage. Because of changing markets, competitors and antitrust laws make it impossible for the franchisor to be bound to best-price requirements. The franchise should employ a standard of best efforts and good faith to acquire both national and regional supply contracts. According to John Pozios of the University of Manitoba, franchise-specific laws vary significantly from province to province, "Alberta, Ontario, Prince Edward Island and most recently New Brunswick have passed laws targeting franchising. Québec offers limited protection in its Civil Code."[8] He states that with franchise-specific laws that differ from province to province, and no legislation in many provinces, "the need for uniformity in franchise legislation in Canada is greater than ever." Regulations protect the franchisee with disclosure requirements for the franchisor, obligations for fair dealing, and other duties of good faith. Inconsistency in law and expectations create a burden on the home-grown, developing franchise systems in Canada. The international franchisors have perfected their business models, are accustomed to variety in legal requirements, and have the experience and resources to take advantage of Canada's obstacles.

Depending on the nature of the product or service, regional deals might make more sense than national ones. Regional contact may provide greater advantages to the franchisee because of shipping weight and cost or service requirements. The savvy franchisor will recognize this and implement a flexible purchase plan. When local advantages exist and the franchisor does not act appropriately, the franchisees will fill the void. The monthly area of dominant influence (ADI) meeting then becomes an expanded forum for franchisees to voice their appreciations and concerns. The results of such ad hoc organizations can be reduced control of quality and expansion of franchisee association matters outside the confines of the licence agreement. Advanced activity of this nature can often fractionalize a franchise system and even render the franchisor obsolete. In some cases, the franchisor and franchisee-operated buying cooperatives peaceably coexist, acting as competitors and lowering the costs to the operator. However, the dual buying co-ops usually reduce economies of scale and dilute system resources, not to mention provide fertile ground for conflict within the franchise alliance.

For purposes of quality control, the franchisor will reserve the right to publish a product specifications list. The list will clearly establish the quality standards of raw materials or goods used in the operation. From those specifications, a subsequent list of approved suppliers is generated. This list can evolve into a franchise "tying agreement," which occurs when the business format franchise licence agreement binds the franchisee to the purchase of a specifically branded product. This varies from the product specification list because brand, not product content, is the qualifying specification. The important question here is: does the tying arrangement of franchise and product create an enhancement for the franchisee in the marketplace? If so, then are arm's-length controls in place to ensure that pricing, netted from the enhanced value, will yield positive results? Unfortunately, this is impossible to precisely quantify. However, if the tying agreement is specified in the licence agreement, then the prospective franchise owner is advised to make a judgment before purchasing the franchise. With this sort of decision at hand, the franchisor should prove the value of the tying agreement or abandon it.

Another subtle form of tying agreements occurs when the licence agreement calls for an approved suppliers list that ultimately includes only one supplier. If adding suppliers to the list is nearly impossible, there is a de facto tying arrangement. Additionally, another tying arrangement can occur when the product specification is written so that only one brand can qualify. A franchisor should disclose any remuneration gained by the franchisor or its officers, directly or indirectly, from product purchase in the franchise system. In this case, the franchisor's market value enhancement test is again proof of a credible arrangement.

Food Franchises with An Appetite for Success

1951 was the year that Hélène and René Léger opened their first St-Hubert restaurant in Montréal. The yellow and red rooster is found in approximately 100 locations throughout Québec, with a few more stores in New Brunswick and Ontario today and signals rotisserie chicken served with that delectable sauce. Adding home delivery and takeout increased consumption of their BBQ chicken and the young married couple realized they were really on to something. Their recipe for chicken, sauce, and service delivery system was easy for franchisees to follow. The sauce was then offered to grocery retailers. The Légers served thousands of visitors at the '67 Expo each day and their reputation grew. By 1979 about 50 St-Hubert restaurants were in existence.[9]

1959 was the year that Richard "Rick" Mauran opened the first Harvey's location in Richmond Hill, Ontario. He arrived at the name in his search for "something simple"—"Harvey's" was the name of the sign of a car dealer at 2300 Danforth Avenue (which today is the location of "Toronto Honda"). Franchising began in 1962 and in 1964 Harvey's Foods Ltd. went public and that year expanded from 7 to 17 locations. By 1965 there were 27 locations including Buffalo, New York. A handful of years later Rick's company merged with Industrial Growth Management to become Foodcorp and Rick and Bernie Syron lead expansive growth and in 1979 Foodcorp and the 80 Harvey's locations were acquired by Cara Operations Ltd. In the mid-1990s Harvey's partnered with Home Depot Canada and opened their first in-store kiosk in Whitby, Ontario.[10]

1963 marked the start of Pizza Nova. The Italian-born Primucci brothers opened one Pizza Nova restaurant in Scarborough, Ontario, and demand grew. In 1969 the Primucci family began franchising and today boast over 120 franchises in Ontario, Québec, New York, New Jersey, Cuba, and Romania. Pizza Nova's Web site lists the answers to the most frequently asked questions regarding opening a franchise with them: $20,000 fee; 6 percent royalties and 4 percent advertising; previous experience; financing required; etc.[11]

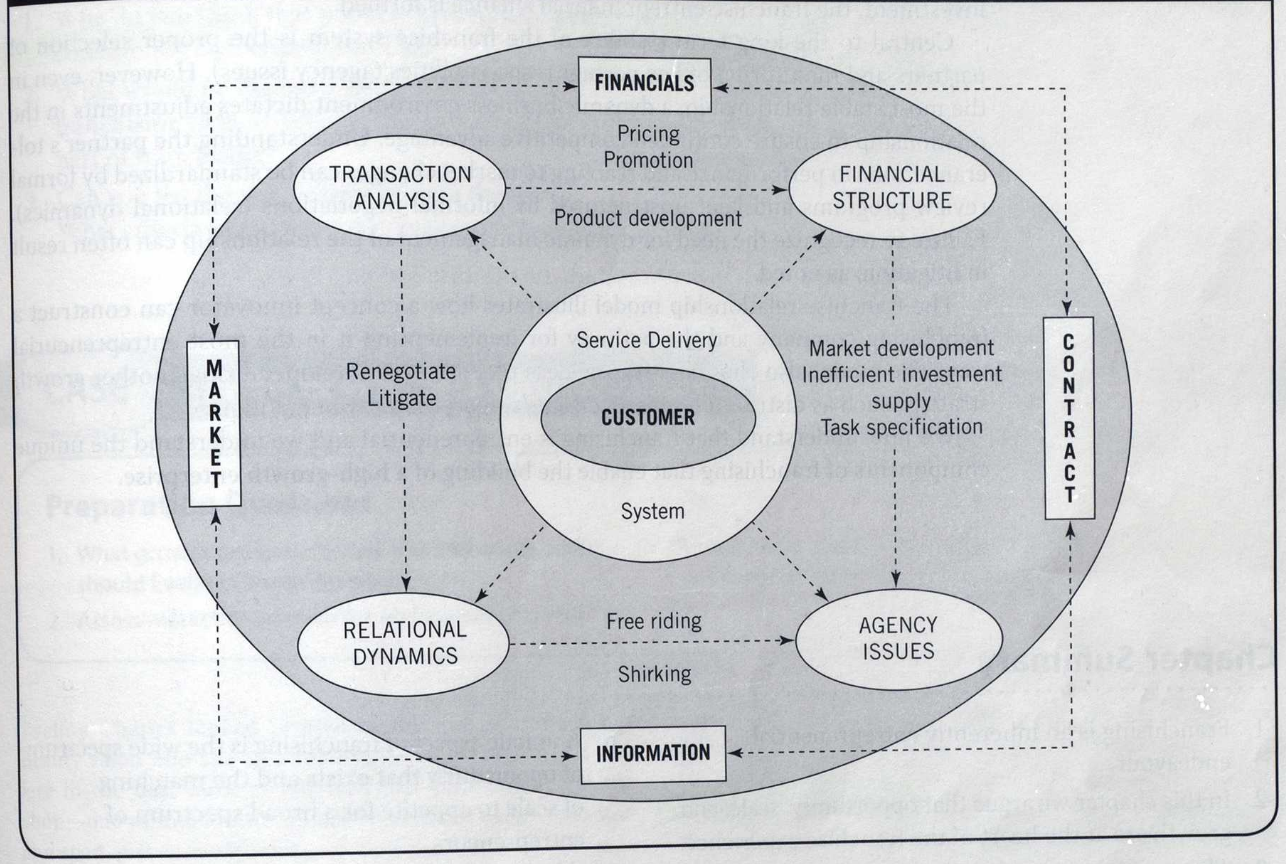
1968, during the hippie era the first Mr. Sub opened at 130 Yorkville Avenue in downtown Toronto to customers in tie-dyed shirts and bell-bottom jeans. Two friends raised $1,500 and started making fresh submarine sandwiches. After an "overwhelming response" the co-founders opened a second location five months later. In 1972 their first franchise opened. It expanded the menu and operations and today remains privately held with the original owners/directors and now has over 450 locations facing competition from Subway and Quizos.[12]

FRANCHISE RELATIONSHIP MODEL

Now that we have established the nature and components of the franchise relationship, we can connect these principles to the franchise relationship model, which we have developed over the years (see Exhibit 13.3). The franchise relationship model takes the entrepreneurial framework provided by the Timmons Model and connects the specific processes that are unique to franchising. We have argued that franchising is a powerful entrepreneurial alliance because it fits the Timmons Model and because it creates wealth. The franchise relationship model illustrates both how a concept innovator (i.e., potential franchisor) can most efficiently construct a franchising company and how a concept implementer (i.e., potential franchisee) can determine which company to join. The franchise relationship model further helps to distinguish between those tasks best executed under a corporate umbrella and those best done by the individual franchisee. Just as franchising is itself a risk-ameliorating tool for the entrepreneur; the franchise relationship model is also a tool that both franchisors and franchisees can use to judge the efficiency or success potential of a franchise opportunity. By overlaying the franchise relationship model template onto any given franchise, we can forecast to a great extent where the bottlenecks will impede success or where improvements can be made that will offer a competitive advantage.

The franchise relationship model is a puzzle, a series of franchise principles, each of which fit into the others to form a powerful interlocking business concept that solidifies itself as the linkages are implemented more efficiently. While the process starts in the centre with the customer, moves to the service delivery system and follows from there, the outer perimeter of means and mechanisms drives the competitive advantage of a franchise system. The major areas of concern other than the customer and the service delivery system are transaction analysis, financial structure, agency issues, and relational dynamics.

EXHIBIT 13.3 Franchise Relationship Model



Transaction analysis considers which transactions are better served at a national level by the franchisor and which at the local level by the franchisee.[13] Typically the franchisor functions are centred on economies of scale. Franchisee functions include those that require local knowledge for hiring and local promotion. The financial structure flows from pro forma analysis of customer demand and the cost associated with development and execution of the service delivery system. Agency issues concern delegating responsibility to a partner.[14] No franchisor can know absolutely that the franchisee is "doing the right thing" at the store level. There is always the possibility of shirking, but if incentives are aligned both parties will pursue the same interests for value creation. Franchisees cannot possibly know that the franchisor is always acting in their best interest. Relational dynamics is the area that allows the partnership between franchisor and franchisee to continually change and develop as the business continues to expand.[15] Any partnership that strictly adheres to a contract will end in litigation.

The franchise relationship model (Exhibit 13.3) is dynamic—as events affect one aspect of the model, all other aspects must be reviewed in an iterative process. For example, if renegotiation of the licence agreement were to result in a reduced royalty, the financial model would be altered. A change in royalty could dictate a change in the services that the franchisor provides. Any change creates a cascading effect throughout the system—a reconstruction of the puzzle.

The franchise relationship model begins with opportunity recognition and shaping (customer) and then articulates the competitive advantages and costs of the service delivery system that will extract the demand and create a return on investment. The competitive sustainability of the franchise is embedded in the delineation of responsibilities between franchisor and franchisee and in the conscious design of the service delivery system. The franchisor's tasks are centrally executed and focus on economies of scale; the franchisee concentrates on those responsibilities that require local on-site managerial intensity (transaction analysis). The emergent financial structure is the manifestation of the interaction between the primary target customer and the service delivery system. By sharing both the burden of the service delivery system and the potential for return on investment, the franchise entrepreneurial alliance is formed.

Central to the long-term stability of the franchise system is the proper selection of partners and monitoring of key partner responsibilities (agency issues). However, even in the most stable relationship, a dynamic business environment dictates adjustments in the relationship to ensure continued competitive advantage. Understanding the partner's tolerance zone in performance and reacting to market changes can be standardized by formal review programs and kept unstructured by informal negotiations (relational dynamics). Failure to recognize the need for dynamic management of the relationship can often result in litigation, as noted.

The franchise relationship model illustrates how a concept innovator can construct a franchising company and the pathway for implementing it in the most entrepreneurial way. The model also eliminates those ideas that are best developed using another growth strategy, such as distributorships, licensing, or corporate-owned outlets.

We now understand that franchising is entrepreneurial and we understand the unique components of franchising that enable the building of a high-growth enterprise.

Chapter Summary

1. Franchising is an inherently entrepreneurial endeavour.
2. In this chapter we argue that opportunity, scale, and growth are at the heart of the franchise experience.
3. The success of franchising is demonstrated by the fact that it accounts for more than one-fifth of all Canadian retailing. Equally important is the demonstrated performance of the top franchise companies, outperforming the S&P TSX Composite Index.
4. Franchising shares profits, risk, and strategy between the franchisor and the franchisee.
5. A unique aspect of franchising is the wide spectrum of opportunity that exists and the matching of scale to appetite for a broad spectrum of entrepreneurs.
6. Two tools have been provided in this chapter to help the entrepreneur. For those interested in creating a franchise, the franchise relationship model articulates the dynamic construction of the franchisor–franchisee alliance. The franchise risk profile helps assess the risk-return scenario for any given franchise opportunity.

Study Questions

1. Can you describe the difference between the franchisor and the franchisee? How are these differences strategically aligned to create a competitive advantage?
2. We describe franchising as a "pathway to entrepreneurship" providing a spectrum of entrepreneurial opportunities. What does this mean to you?
3. What are the most important determinants of whether franchising is an appropriate method of rapidly growing a concept?
4. What are the five components of the franchise relationship model? Can you describe the interactive nature of these components?
5. What are the key components of a franchise offering from the franchisor's viewpoint?

Mind Stretchers *Have you considered?*

1. Why do you think that publicly held franchisors consistently outperform the TSX?
2. What would be the most attractive aspects of franchising to you? What is the least attractive part of franchising?
3. Can you list the top 10 franchises in the world? What criteria would you use to make your judgment?
4. Do you know anyone who owns a franchise? Do you think they work more or less hard than a "stand-alone" entrepreneur?
5. Who is franchising for and not for? What sectors are naturals for franchises?

CASE WHICH WAY TO GROW?

Richard Ivey School of Business
The University of Western Ontario
IVEY Research and Development

Preparation Questions

1. What growth options are available and which one(s) should Eveline Charles pursue?
2. Assess market characteristics and market potential?
3. Will any resources need to be re-deployed? Any change in focus?

Eveline Charles looked pleased as she walked through her beauty salon and spa in Edmonton's Southgate Mall. It was late in the day, most of her staff had gone home, and the shop—one of nine outlets in her eponymous chain—was spic and span, just as she liked it.

Looking out through her storefront window, Charles watched as the last of the day's shoppers wandered towards the exits, bags in hand. Charles, however, wouldn't be heading out like the rest of them. On this mid-December evening, she was staying behind with her chief operating officer, Lina Heath, for a meeting. The subject: where to take the company next.

Turning her attention to that task, Charles sank down into one of the large black chairs in the reception lounge and looked up at Heath. "We've come a long way since we first added spa services to our salon business in 1995," she said. "Most of our stores are doing well. We've improved our decor, introduced new items and special services. And we've stayed true to our formula of offering a luxurious and fashion-forward salon where our clients can be pampered for a few hours."

Heath nodded. Both of the women knew that EvelineCharles was in good shape. Revenue and profit had grown steadily with the business. The company had launched a successful line of beauty products, it had created a training school in partnership with the Northern Alberta Institute of Technology and it had established EvelineCharles as a premium brand in western Canada, with annual sales of $17 million.

Still, Charles was puzzled over where her next phase of growth would come from. At least she had options. For starters, she had a large line of branded products—upwards of 1,800 stock-keeping units (SKUs), including beauty products and salon equipment—which meant she had the potential to become a supplier to other high-end salons. Heath liked this idea. The company had $2 million worth of stock in its inventory, and she reminded Charles that becoming a supplier would increase turnover and generate cash. Charles agreed. But she had bigger ideas on her mind. "What about our thoughts on franchising our concept?" she asked Heath. "How should we assess that option? This is a unique industry where every operator wants to be an owner. We can give them the tools to build a business. With our school, we can even provide them with business training."

Both Charles and Heath were intrigued by the potential that franchising offered. But neither had experience as franchisors. Was it a good business model for EvelineCharles? They just didn't know and they were wary of pitfalls. Still, the idea was tempting. Growing by opening corporate stores would be time-consuming and expensive. Both women knew that well. But they also had a track record for getting it right. What was their best way forward—franchising or organic growth? Charles and Heath hoped this evening's meeting would shed some light on that question.

If Charles and Heath knew one thing as they pondered their options, it was that they were in a strong business category. The professional beauty-service market in North America was worth more than $60 billion in 2007, encompassing services that ranged from hair cuts and facials to massage and body scrubs. It was also extremely fragmented, with single, owner-operated stores accounting for most of the business.

Charles was such an owner when she opened her first business, a beauty salon in Edmonton, in 1984—but she wasn't content to stay that way. By the early 1990s, she had opened two more salons and, more importantly, had a plan for future growth. Charles had detected an early-stage trend in the industry of adding spa services to the menu of haircuts and manicures offered at traditional salons. She saw promise and, in 1995, launched her first combined salon-spa. She opened a second location in 1998, and set her sights on developing even more.

Part of Charles's strategy centred on developing signature services, such as hot-stone massages and mango body washes. To further differentiate her company, she also began develop-

This case was written by Ken Mark, Eric Morse, and Mary Weil, Pierre L. Morrissette Institute for Entrepreneurship, Richard Ivey School of Business, University of Western Ontario, for purposes of classroom discussion.

ing branded lines of beauty products, like shampoos, lotions and cosmetics, a job she and Heath (who had joined the company by this time) attacked with relish. "Lina and I have spent months in all corners of the world sourcing our products," Charles says. "We have our skin-care products and aromatherapy products sourced in France. Our nail colours come from Italy. We source from the best manufacturers and those with the strongest traditions in beauty care. And every single component is 100 percent customized for us. Everything we offer is unique and very difficult to replicate."

That focus on customization didn't stop at the EvelineCharles product lines. As the chain grew, Charles and Heath paid careful attention the to the details of opening each new store. They oversaw construction at each location, designed the layouts, and picked the colours and the lights to create a feel consistent with the company's high-end positioning. Customers certainly noticed. Many asked if the new stores were part of a U.S. chain making its way into Canada. Industry peers were paying attention, too, and Charles started to win industry awards, including Entrepreneur of the Year for Canada in the Global Salon Business Awards, in both 2004 and 2006. By the middle of this decade, it had become a major player in the salon and spa business, with stores in Edmonton, Calgary, Vancouver and Kelowna, B.C.

Back in the salon, Charles and Heath continued to discuss their options. Their existing growth strategy had taken them a long way. But opening stores themselves was a slow process. Real estate had to be found, leases negotiated and construction managed. Bringing stores to maturity in terms of sales also tied up working capital. And even though EvelineCharles had a source of recruits thanks to its beauty academy, hiring was still a major task.

For these reasons, among others, Charles and Heath were intrigued by the prospect of franchising the EvelineCharles brand. For starters, franchising would help the brand grow quickly, as EvelineCharles would be able to leverage the financial resources of its franchise partners. On the revenue side, the company would earn a percentage from each franchise and create a whole new market for its inventory of branded products.

Of course, franchisees would have to be selected carefully to maintain the quality of the EvelineCharles brand. And they'd have to be committed to growing their locations, keeping a close watch on local trends and ensuring that costs were controlled. Still, the prospects looked very tempting. "One day, EvelineCharles could become a nationwide brand," Heath mused.

But their inexperience as franchisors left Charles and Heath with nagging doubts, no matter how much they liked the idea. Turning to Heath, Charles had only one question: "What do you think we should do?"

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C·H·A·P·T·E·R

14

THE FAMILY AS ENTREPRENEUR[1]

The very elements that foster success, as well as the attitudes bred by success itself, can precipitate failure. The systems that built great companies often work to destroy them.[2]

Danny Miller & Isabelle LeBreton-Miller
HEC Montréal and University of Alberta

RESULTS EXPECTED

Upon completion of this chapter, you will be able to:

1. Describe the significant economic and entrepreneurial contribution families make to communities and countries worldwide.
2. Appreciate the different roles families play as part of the entrepreneurial process.
3. Provide a definition of family enterprising and transgenerational entrepreneurship.
4. Assess a family on the mind-set and methods continua for family enterprising and identify key issues for family dialogue.
4. Explore key questions on the six dimensions for family enterprising.
5. Plot a family's resource and capabilities on the "familiness f+ and f– assessment continuum" and understand their advantages and constraints.

FAMILIES, ENTREPRENEURSHIP, AND THE TIMMONS MODEL

The tension among generations in families can often revolve around the aggressive younger executives seeking to explore new and exciting deals and the older executive who seeks to march forward on the pathway that created the family's fortune. The purpose of this chapter is to help families (and those working with families!) understand that opportunity recognition and balance in the Timmons Model help guide the family's decision-making process. By encouraging the discussion toward the model, we ask, "What is the richest opportunity?" and "Are the opportunity, team, and resources well balanced?" Families have special knowledge, experience, and often resources that bring competitive advantages. We aspire to leverage these special factors to create a "familiness" advantage that creates value. But there also exist pitfalls with which enterprising families need to be aware. As Lloyd Steier of the University of Alberta, James Chrisman of Mississippi State University, and Jess Chua of the University of Calgary indicate, "family based approaches to organizing enterprise might yield advantages or disadvantages."[3]