



INTRODUCTION

The Last Untapped Channel of Distribution

THE CHALLENGES COMPANIES face today are greater than any they have faced since the Great Depression. Without doing a great deal of analysis, we all feel that businesses need help. The government may have pumped \$152 billion into the economy over the last couple of years, but money remains tight, unemployment is still high, and businesses need a new way of leveraging their current resources.¹

Everyone in a company leadership role is looking to add to the top line and preserve the bottom line. The business model presented in this book grew out of years of building and operating companies and consulting to business leaders who were looking for ways to build better, more profitable companies. In this book, I'll present a business framework you can use to build a better top and bottom line. It captures the entrepreneurial spirit in all of us and can be used as a framework for responding to the ever-shifting business landscape. This framework is an "Internal Franchise."

Franchising is a method for marketing and distributing products and services. Companies like Dunkin' Donuts—which makes my favorite coffee—have used franchising to grow very rapidly

2 The Power of an Internal Franchise

and secure a significant share of their markets before competitors could catch up.

In a franchise system, a franchisor licenses a business formula—a complete way of doing business—to a franchisee. The franchisee agrees to operate the business according to specific guidelines and to pay the franchisor a percentage of sales as a royalty. The franchisor-franchisee relationship is governed by a franchise agreement, a binding legal agreement.

The franchise sector is one of the fastest-growing segments of our economy. Franchises employ more than 11 million people. The sector has outpaced construction, durable and non-durable goods, manufacturing, and financial services. In fact, a new franchise outlet opens every eight minutes in the United States.²

One reason for this success is that franchising provides the opportunity to run your own business with less risk than starting from scratch on your own. One of the hardest parts about starting a business from scratch is designing the business concept. In franchising, this step is already done for you. You simply have to learn to run the business. You have a serious head start on competitors who start from zero. That is why many Americans are turning to franchising to pursue their entrepreneurial dreams.

In an Internal Franchise, a company makes its operating model explicit and then franchises the operating model to its employees. The Internal Franchise is a framework for creating the ultimate channel of distribution for your products and services. The employees are then coached, mentored, and trained to operate the business at the highest level of proficiency. In an Internal Franchise, the franchise agreement is not a binding legal contract; it's the company's culture, an ownership culture.

An Internal Franchise addresses many of the fundamental challenges facing most workplaces today:

- Dealing with the lack of trust in society and in the workplace
- Understanding and providing for an employee base that wants opportunity and security
- Finding new markets for a company's products and services

Business leaders understand it is more difficult now to hire and retain an engaged, loyal workforce. They are looking for ways to motivate and inspire that next generation of leaders to innovate and take on additional responsibilities, and they are always trying to find new channels of distribution for their products and services.

If franchising is a method of marketing and distributing products and services, then an Internal Franchise is the *last untapped distribution channel for your products and services*. A channel of distribution is simply an avenue to move your products and services into the market. Creating this untapped channel forms a new energy in your organization and an opportunity to leapfrog your competitors.

Let's take a closer look at the three key components of an Internal Franchise: the operating model, the employee, and most importantly, the ownership culture.

If franchising is a method of marketing and distributing products and services, then an Internal Franchise is the *last untapped distribution channel for your products and services*.

The Operating Model

In a nutshell, an operating model is an organization's design for delivering utility to customers and earning a profit from that activity. It is the aggregate of these aspects of a company:

4 The Power of an Internal Franchise

- The go-to market strategy
- The value proposition
- The structure and design
- The business processes

This is a long way of saying that what you do today is less important than *how* you do it.

For a lot of companies, their operating model is less a thoughtful process of leveraging the inherent advantages of the business and more a result of years of neglect. The design evolves over a period of time and is shaped by the personalities of the company's leaders and the fires currently being fought. You, as a leader, should decide proactively on your target markets and customers, your product and service offerings, your method of sales, your pricing strategy, and a host of other elements that make up the business design. Once you establish the design, you must then put it into action as an operating model.

An operating model is a company's way of doing business. Having a solid business design is not enough; you must have a workforce that can execute the design effectively.

Leaders who think hard about their company's operating model use a kind of "design thinking." As they design their business, they allow themselves to engage in a kind of divergent thought process. After they've explored all angles, they begin to hone in on the solution with a convergent thought process. Roger Martin, the dean of the University of Toronto's Rotman School of Management, calls this abductive thinking. In this type of thinking, the mind suggests a possibility and then explores it.³

Design thinking led the Four Seasons Hotels and Resorts to conduct a detailed study of its customers' attitudes toward the company. On the basis of the results, company leaders concluded

that the Four Seasons could be a winner in the market by offering first-class service, but it would have to invest heavily in recruitment and training in order to have its service match its rhetoric. Making the decision to provide superior service wasn't enough. All the people in the organization had to understand the importance of customer service in the success of the business. They had to be motivated to provide top-notch service, be trained to serve customers, and be rewarded when they provided that service. First-class customer service had to become part of the Four Seasons operating model.⁴

An operating model like this manifests itself in the stories employees tell about what they do in their jobs. If you asked the leaders of the Four Seasons about their business design, they would mention customer service. If you asked employees about their jobs, they might say they are trained to identify a struggling customer and to immediately offer help. An operating model is only as good as the number of people who can live it every day!

The first step in building an Internal Franchise is to explicitly identify your operating model. To do that, you need to understand and challenge your fundamental assumptions about your business, your industry, and your customers and make explicit key business decisions about the customer, economic, and operational dimensions of your business. Next, devise procedures and systems to accomplish your business objectives. Once you choreograph the activities of everyone in your organization, you ensure they work together to achieve your business vision. Then, create reward systems to motivate the behaviors you need. You can teach everyone how your business works and how it makes money. You can reengineer your processes to ensure they produce the marketing result you want. You can define how your business works. In short, you ensure the policies, procedures, processes, and structures of your business work seamlessly together to achieve your business objectives.

6 The Power of an Internal Franchise

The resulting operating model is what your employees will franchise. It doesn't matter if you are the manager of a major business unit of a Fortune 500 company or the leader of an entrepreneurial start-up. In today's business climate, everyone in your organization must understand your operating model.

The Employee

Engaged, entrepreneurial employees are the second major component of an Internal Franchise. Think about your hiring process. When you hire new employees, do you want technicians or entrepreneurs? Are you hiring people with specific skills, or are you hiring entrepreneurial people with an aptitude for the job they will perform?

I believe most people want the opportunity to act like an owner. But most people are never given the chance. Therefore, they are conditioned to think like a technician. They view themselves as a salesperson, an engineer, or a manager.

You need to begin to view your employees as entrepreneurs. And this starts with your hiring process. When you screen for attitude and cultural fit, look for people with entrepreneurial drive. Engage in open-ended questions that tap their background, demonstrate their ability to understand customer needs, and illustrate how they have served customers in the past. When you begin to explain to prospective employees that they will be given the opportunity to act like an owner, the entrepreneur in them will awaken. Then, when they join your company and begin to live in an ownership culture, their entrepreneurial spirit will grow. They will begin to act like stewards of the business and, in the best of cases, act like owners of your business. Your ownership culture becomes a brand that nurtures loyalty between your employees and your company or organization.

Your job as a leader is to attract and grow entrepreneurs, or “intrapreneurs,” who can franchise your operating model and execute it at a high level of proficiency. You must attract people with a positive, entrepreneurial attitude and then create an environment that nurtures and supports an entrepreneurial spirit and creates the behaviors you need. That’s where an ownership culture comes into play. It’s your franchise agreement.

The Ownership Culture

A franchise agreement is a legal document that sets limits on the activities of the franchisee. Its purpose is to enforce the principle that what’s good for the system is good for the franchisee. The franchise agreement aligns everyone’s behaviors with the overall goals of the franchise system; then, both the system and the individual operators will benefit.

Likewise, a corporate culture enforces shared principles and values and establishes accepted behavior for all members of the organization. An ownership culture compels everyone to think and act like an owner of the business. An ownership culture enforces the Law of the Entrepreneur:

What’s good for the business is good for the entrepreneur,
and what’s good for the entrepreneur is good for the
business.

An ownership culture is a bond that is cast in trust among the constituent members of the organization. This strong, empowered culture implies that people will act with the best interest of the company in mind. It creates an environment where all the people in the organization feel like they own their franchised operation and act accordingly. Therefore, an ownership culture is the franchise agreement in an Internal Franchise.

Putting an Internal Franchise to Work

This book covers every element of the Internal Franchise from every direction. You'll understand how an Internal Franchise can transform your organization. You will explore culture's role as the franchise agreement in your Internal Franchise and the power of branding your workplace. You will also understand what a corporate culture is, how to identify it, why it's important, and what its role is in aligning people with your business goals. You'll then review research findings that describe the link between corporate culture and business performance and learn how a strong, empowered culture is the corporate culture of choice. In addition, you will learn how to identify the principles and values that are at the foundation of your organization and how an Internal Franchise can brand your workplace and help you attract, motivate, and retain the people you need.

Next, I will lead you through the process of specifying your operating model. Here, you will explicitly define your vision for your business or business segment. You will have the opportunity to explore your business focus, economic model, operating parameters, and core processes. When you understand these components, you can devise effective business processes, procedures, structures, and systems that ensure your vision is fulfilled. More importantly, the process of crystallizing your operating model is a consensus-building process. It allows you to solicit and consider the input of everyone in your organization. It prepares you to teach everyone how the business works. An operating model is not a strategic plan or even a business plan; it's a tool for building consensus on the direction of the business and for teaching everyone in the organization what the business is for, how it works, and what everyone needs to do to make sure it is successful.

Then, we will look at the key characteristics we value most in the people with whom we work. We can create the most unique

operating model around, but it will produce value only when it is executed by highly talented and motivated people. This book will demonstrate that what most of us are actually seeking in our employees is embodied in the spirit and characteristics of the entrepreneur.

Finally, we will look at motivating your entrepreneurial workforce and sustaining momentum for years to come. This will include a discussion of how leaders should reward entrepreneurial employees, how the outward signs of an Internal Franchise positively shape the workforce, and the best practices on leading an Internal Franchise.