CHAIN CONCEPT JUST WON'T FLY

National chains really can't offer customers anything special

Back in 1978, Bernie Marcus and Arthur Blank wanted to revolutionize the hardware business, and about a year later opened their first two Atlanta stores. Their revolutionary concept was based as much on its large-scale buildings as it was on top-of-the-industry employee service.

Success with this formula isn't debatable. The Home Depot went public two years after those first stores opened, and no retailer has ever grown faster.

In a marketplace that has seen national chains hawking everything from burgers and pizza to oil changes, electronics and pet supplies, why has our industry failed to deliver a successful national operation? Will we ever see one?

THE ELEMENTS OF SUCCESS

By my assessment, I'd say there have been eight to 10 attempts at the chain concept, all mostly unsuccessful in establishing anything much more than a regional brand. And the reason? If you're a store owner, you know some of the reasons for the lack of success. It's all about the day-to-day challenges of running a laundry.

What makes a chain successful? In most cases, it's a proprietary product — the McDonald's Big Mac or Starbucks coffee. We have no such unique product hook. Nor do we have a particularly standout presentation — the unique atmosphere created at a Hard Rock Café or Hooters, for example.

These are just two of the barriers to the national chain idea. By now, I'm sure you realize that I don't think this model will be successful in our business on a national basis, but it's possible on a regional level. I know this from personal observations and firsthand experience.

As we all know, the challenges in our business are many. Start with lending. Banks and other commercial lenders aren't knowledgeable about vended laundries and can be reluctant to back such projects on a small scale, much less a nationwide plan. Impact fees, municipal codes and the permitting process itself vary greatly, further complicating things for the entity seeking to open 100 locations across the country.

Laundry store owners expect to see slow and sustained growth. We are good at doing this. Investors in a national chain, however, might not be as patient, especially when faced with a six- or even 18-month ramp-up. It can be hard on this large scale to generate income quickly enough to satisfy investors. And obtaining early profits may actually hurt the brand you are trying to create if those profits are at the expense of quality customer service or amenities.

Let's think again about what makes a national brand successful vs. smaller entities vying for the same customer base. First, it's all about scale. Chains are able to leverage suppliers for better pricing, which in turn enables them to sell products cheaper than their smaller competition. While a self-service laundry chain could perhaps obtain preferred pricing by buying its equipment direct from a manufacturer, the concept falls flat when we get into operating expenses. Large or small, the laundry playing surface is level when it comes to water and utility costs.

True, the big chain could undercut smaller stores on vend prices, but I'm betting each of us has an example of a large store that came in to steal our market with this lower-price strategy and failed. We know there is much more to this business than price. And I'll counsel investors that as long as they are providing a premium laundry, with excellent service, there's nothing wrong with being the high-price leader.

Operations are another issue for a national chain. Whereas in a regional approach, one or two persons can be charged with collecting and operations, going national complicates things tremendously, especially when cash is being handled. Card payment and networking systems help take some of this risk away, but they don't completely erase the operational risk.

Finally, there is one other characteristic failed national chains have shared. The officers or principals all came from corporate or other nonrelated businesses, and had no hands-on experience to understand this business. They were going to "reinvent" the concept in their own way. In reality, this is a simple business with each location having its own unique set of characteristics. As an analogy, think of each location as if it is one of your children. Children all grow up with their own personality, even though you as their parent had in mind what you think they will grow up to be. Now, envision being a first-time parent with numerous children spread out across the country. Good luck.

FOCUS ON PLANNING

Undoubtedly, some readers are thinking about going national with a franchise concept. However, what exactly does a franchisee receive for its annual franchise fee? We've already established that there is nothing proprietary about this concept (and it's taken many forms as a combo business). An independent store owner keeps all his profits, while the franchisee gains an added expense in the form of franchise fees.

I think the most we'll see in terms of a chain is a strong regional model. Owners, along with a few trusted managers, can most effectively run such an operation. It enables substantial growth beyond the single store/community approach, while not watering down the owner's commitment to a particular formula (based on exceptional customer service).

However, as I always say, success in this business starts with preplanning, including a heavy emphasis on your overall goals and exit strategy. This is important, no matter if you are opening one store or a dozen during the next few years.

Know where you want to be when everything falls into place; it will make creating the road map to get there much easier. And remember that the idea of great customer service isn't revolutionary, but delivering it every day, a la The Home Depot way, requires a strong commitment.

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