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LEADERSHIP CASE STUDY: Spending More on Ads to Overcome a Slump, By Kermit Pattison

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LEADERSHIP CASE STUDY
Spending More on Ads to Overcome a Slump
By Kermit Pattison

An individual project submitted in complete fulfillment
of the requirements for the MBA degree
MGMT 5800

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I. Executive Summary

Firehouse Subs has been a successful submarine sandwich chain for 16 years. Based in Jacksonville, FL, the chain experienced year-over-year growth even after the company transitioned to a franchise business model in 2001. However, with the economic slump in 2008, Firehouse Subs began to experience a decrease in sales of about six percent below prior year performance. Given the company had been thriving from inception this concept was completely alien to the founders, Robin and Chris Sorensen. In a down economy, typically consumers will resort to lesser expensive restaurant options; one of which Firehouse Subs would be classified under. Therefore, executives attributed poor performance to poor brand awareness. The challenge ahead is how to revert the negative performance (Pattison, 2010).

Overall, there are a couple of problems the Sorensen brothers are facing. To start, the Sorensen brothers considered their approach. The option to discount or decrease product quality was on the table but quickly dismissed. They spent about a six month period waiving the 2% royalty fees in hopes owners would utilize those funds in local store marketing efforts but that did not result in any positive change. After enlisting the help of a professional agency, Zimmerman Advertising, they made the decision to reverse the 2% royalty fee, now requiring owners to contribute again. In addition, the fee would be increased to 4% in an already troubling time. After positive testing was conducted, Firehouse Subs gave markets the option to vote on pursuing the proposed marketing strategy tested by Zimmerman. About two-thirds agreed to contribute 4% to the new campaign while the remaining one-third resorted to the standard 2% and a different message. The problem here is inconsistency throughout the nation on the brand message (Pattison, 2010).

The recommended plan of action suggests that the founders of Firehouse Subs take an autocratic approach in the company's branding message. The company is required to have structure and without a solid understanding of who they are, all else will fail. As long as the brand message is consistent, any freedom given to owners should be considered safe. On the contrary, the leaders are suggested to take a democratic approach in regards to the advertising fees, especially since the increase is probably not disclosed in their original franchise agreement. The suggestion allows owners to vote on their desired outcome, majority will rule. However, if the ruling is not what the leaders were hoping for, the option is again provide to local markets. This will allow for a consistent message and increase advertising levels in the areas that see the value.

II. Statement of the Problem

There were a number of problems facing the leadership team at Firehouse Subs. The biggest problem was how to reverse declining sales the brand was experiencing. The other problem was related to changes in franchise advertising fees that were initially intended to address the bigger problem at hand (Pattison, 2010).

In an effort to understand the root cause of the major problem, declining sales for Firehouse Subs, we need to understand the business environment at that time. The problem originated in 2008 just as the economy took a hit and many businesses in many industries suffered. Coming from the quick service industry myself, I recall studying industry reports that confirmed majority of the fast food chains suffering with the exception of one or two strong, longtime brands. Those brands were Subway and Dunkin Donuts. This was a trying time for many. Considering the economic environment at that time, many consumers were looking for value. Depending on whom you asked, the term “value” had different meanings. To some it meant “cheap” while to others it meant getting a fair product for a fair price. It is critical for a brand to remain true to its values so discounting and decreasing product quality should never be considered for Firehouse Subs. Regardless, this period of time would have been challenging for the brand however, it may not have been as severe. I am not familiar with Firehouse Subs’ brand campaign or messaging during 2008. However, if the founders were concerned about brand awareness, I too am concerned they may not have had a strong enough message to sustain.

The other problem Firehouse Subs faced was the decision to revoke the 2% advertising fee. There are two subsequent problems that stemmed from this decision. For one, while it may appear to be a knee jerk decision, it would not have been a totally bad idea had the company put controls in place. By ensuring the funds were being used properly by the franchisees, local store

marketing could have occurred in the neighborhoods around the stores! Ultimately, this would drive traffic to the individual locations by addressing the specific needs of the consumers in each particular area. This would have resulted in local stores carrying the weight and success over corporate until the market rebounded again. Had controls been put in place, this would have been an out-of-the-box, brilliant idea! Unfortunately, during a trying time these funds were not used properly. Additionally, after about six months of being freed of the 2% royalties, the policy changed again. After owners got used to the extra funds, they were being asked to revert back to old ways and to double up on the contribution. While the article did not address morale, I'm sure the temperature in the field was fairly hot.

The final problem I can identify with the Firehouse Subs case is the inconsistency in the campaign message across markets. The brand allows markets to vote on messaging and it appears only two-thirds of the markets voted to pursue the tested and proven branding campaign. While I am familiar with the franchise model and am aware this is just the nature of the business model, I personally do not agree with inconsistent *branding* messages. The problem with this resides with the consumer base and mixed messages across borders.

Some of the problems Firehouse Subs encountered may be short-term while others will be long-term challenges. The decision of the brand to revoke then reinstate the advertising fees is a short-term problem. Owners will create a lot of noise around it but soon they will get past the idea of not having to pay the required royalties and will proceed with business as usual. The decision to revoke the fees initially did have a negative effect and drove further decreases in sales. This decrease will result in longer time to turn things around but I'm confident the brand can do it. Another short-term problem was identifying and finding a new advertising agency. The Sorensen's quickly identified the need to hire a new agency. Doing so is never an easy

process, but this is a short term problem. They were able to find an agency they liked, Zimmerman Advertising, and quickly adjusted to the new leadership style.

There are more severe, long-term problems. For one, addressing the decline in sales and repositioning the brand takes time. All parties need to remain on the same page and consistent with their actions. All parties include the agency, corporate, franchisees and vendor partners. Change is always tough and it is never a smooth transition. The leaders, meaning Firehouse Subs and the Zimmerman Advertising, need to remain consistent and positive as the brand progresses through this process. Both need to be supportive to the franchisees and the field. They need to be transparent and provide data and reassurance that the brand will come out ahead. Not only do they have to express this, but also must believe it! Another long-term problem Firehouse Subs faces is the inconsistency across market borders. I agree with and understand the franchise model of local markets promoting different messages to address local needs. That being said, it is very important that the brand is consistent across the board with its branding message. Of all things, that needs to remain consistent. Otherwise, the brand will not gain traction in reestablishing itself as consumers will not understand what the brand truly stands for.

The conclusion of the decision facing the leaders was to develop a new campaign that emphasizes the brand's favorable attributes. The slogan they used is, "Our way beats their way. If you don't agree, it's free." This is a bold statement that apparently tested well in the three test markets. This message was presented as an option across all Firehouse Subs markets and two-thirds agreed to contribute 4% towards advertising while one-third decided to remain at the 2% and promote a different message. In the end, the brand began an \$8 million campaign with Zimmerman Advertising (Pattison, 2010).

III. Causes of the Problem

As stated earlier, there are two major problems Firehouse Subs faces; one being the decline in sales and the second, changes in the advertising fees. When analyzing the decline in sales the brand was experiencing we have to understand the cause. Based on the time, it is easy to attribute the decline to the economic environment. However, there could be more to the story. If the company felt the original agency was not performing to their standards, this should have been addressed early on. If so, they could have realigned and may not have needed to change agencies. Additionally, the article stated that after the 2% advertising fees were revoked, the brand experienced a greater decrease in sales (Pattison, 2010). Perhaps the company could have rebounded naturally, had this decision never been pursued. On the other hand, I had stated earlier that the idea to eliminate the 2% was not completely out of sorts. Had corporate put parameters and control measures in place on how the funds were being used locally, there could have been a better use of money.

The second major problem relates to the change in the advertising fees. As I mentioned earlier, this isn't a bad idea, yet it was executed poorly. Parameters should have been addressed. The problem with the changing in fees resides with the owners. This is a troubling time for all; it's a time of great uncertainty and their leaders aren't being consistent. The back and forth and consistent change in plans sends mix messages. I've personally witnessed this sort of behavior and all its good for is for creating turmoil, confusion and a decrease in trust and creditability. Aside from owners not wanting to pay the fee (let alone a doubled fee), they are losing confidence in their investment.

Based on the article, it appears the founders of Firehouse Subs take on a democratic approach to leadership. A democratic approach to leadership allows for the group to influence the decisions of the company or market (Lussier, 2012). Based on the Tannebaum and Schmidt's

Leadership Continuum Model, the democratic style is referred to as participative style. More specifically, they reside at number 6 which states that the leader outlines the rules and followers are asked to make their decisions (Lussier, 2012). Firehouse Subs has given franchisees the option on how much advertising fees they'd like to contribute and which message to promote. The decision of the majority vote is pursued thereafter which is the case with the outcome of the market votes on the advertising fee and brand message vote.

In terms of the leadership personality styles, the Sorensen brothers hold traits that are both conscientious and open to experience (Lussier, 2012). As franchisors to a sandwich chain, these leaders felt it was their responsibility to influence positive change to their organization especially since so many franchisees have invested into their vision. Mr. Sorensen exhibited these exact feelings in a quote made in the article, "We didn't have an ego about who has this money. We want results. We could feel the onus on our shoulders. We're the leadership team, and we've got to do something" (Pattison, 2010).

These owners have a solid understanding for their brand's core values and dismissed the idea of utilizing tactics that would provide immediate sales increases at the expense of hurting their image. The decision of discounting or tampering with product quality were both out of the question. Instead, they wanted to promote their favorable product attributes. Mr. Fox, who is the chief executive said, "I knew our brand was stronger and deserved better than negative 6 percent," (Pattison, 2010). This demonstrates both conscientiousness and openness to experience; these leaders were not afraid of change. They took on risk by changing the advertising fee and hiring a new agency to help reestablish the brand image. Some may have their own opinion on these decisions, but the fact of the matter is the Sorensen's were willing and

open to endure the trials and tribulations of change for the greater good of their franchise business.

Lastly, in regards to goal-setting theory, the article did not explicitly outline Firehouse Subs' goals other than stating sales must improve. However, the Firehouse Subs' community will be motivated to work towards the common goal. This is evident in the actions taken leading up to the market votes. Under the direction of Zimmerman Advertising, the proposed campaign was tested in three separate market areas and proved to yield positive results. Upon expanding the campaign to other markets, two-thirds agreed to participate as well, considering the favorable outcome (Pattison, 2010). Not only has Firehouse Subs provided credibility to their proposal, two thirds of the company agreed to follow their direction. They have achieved buy-in from the field and are working towards achieving the common goal, collectively. The Sorensen brothers and leaders at Firehouse Subs have demonstrated integrity in the brand, sensitivity to others by being considerate of their franchisees' investment, determination on improving the situation, flexibility in terms of market decisions and willingness to welcome change with a new agency and confidence in knowing the brand deserves more.

IV. Decision Criteria and Alternative Solutions

When considering other possible outcomes of the Firehouse Subs situation, a few ideas come to mind. For one, the decision to revoke the 2% advertising fee would not have been an epic fail had parameters been put into place. In fact, local store marketing is essential for brand growth. It is recommended the local stores focus on a one to three mile radius around their locations. This area is where franchisees should focus their efforts to win over local consumers and beat out other competitors (Bond, 2015). By having extra local dollars, franchisees would have been able to accomplish and potentially could have experienced a greater sales increase until the economy

and corporate found solid ground. It is evident the major downfall of this idea would be the control factor. Knowing for certain that store level activities were taking place would require additional work from corporate to keep track of the local activity. Additionally, I imagine many owners would feel entitled to those funds and be resistant to giving them up to local store advertising resulting in unnecessary tension over how owners spend the money.

Another alternative solution would have been to stick with the original agency and work through the branding concerns. The article did not elaborate on reasons for dismissing the original advertising agency other than stating they felt dissatisfied with them as sales fell. The agency works for Firehouse Subs. While it is up to the agency to be creative and provide the best possible proposals for the brand, Firehouse Subs also has the responsibility of provide clear direction and establish their expectations. Based on the article it is hard to determine the dynamic between the two parties. Regardless, a suggestion would be to stick with the original agency for a given period of time after clearly disclosing expectations. After that period of time, if performance is still under par, then interviewing other agencies would be recommended (Kruse, 2013). The benefit of sticking with the same agency is not having to go through the hassle of interviewing new companies, having them learn about your business and spending time and money along the way (Kruse, 2013). A risk in this scenario is that more time and money could be invested in the original agency with no positive change occurring which would result in a greater decrease in sales and profits.

Lastly, I would have suggested that the idea of increasing the advertising fee by 1% (instead of 2%) for a total of 3% may have been more accepted by the franchisee community. However, since the article stated the campaign required for the funds to be doubled, I know this would not be sufficient. The goal here is to gain consistency. Therefore, another suggestion would be for

Firehouse Subs to expand the test to more markets, also requiring an increase in advertising funds (CBS Money Watch, 2007). However, over a longer period of time, national collections would increase, assuming performance is favorable, and then roll the campaign out nationally. By taking this approach two things are accomplished. For one, the company may only require a 1-2% increase in advertising fees and two, more concrete evidence is provided to the franchisee community on the successfulness of this campaign. This approach would generate a stronger acceptance and yield to a consistent branding message. The downfall is this approach would take more time as the test progresses.

V. Recommended Solution, Implementation and Justification

The challenge Firehouse Subs is facing is decreased sales which they attribute to poor focus from their original advertising agency. The company hired a new advertising agency who proposed a new campaign theme that tested well but the brand does not have 100% participation in the rollout due to the increase in advertising fees. Ideally, I would have never suggested revoking the 2% advertising fees with no clear direction on the intended use of those funds. However, since that's already done, we cannot go back and change it. My recommended solution would relate to how Sorensen addressed the franchisees at the annual company meeting. For one, it is up to the leaders of a growing franchise to determine the brand message. For that reason, I would suggest that the Sorensen brothers take an autocratic approach in communicating the brand message to the owners and sell it to them. This would be done at the annual company meeting. The Sorensen brothers make the decision and announce it to all at one time. However, I would suggest a democratic approach in regards to addressing the royalty fees. At this company meeting, the leaders are excited about the new branding theme, they gain buy-in from franchisees with their enthusiasm and positive test market results. Then, they offer owners the

option to vote on either remaining at the 2% advertising rate or increasing it to 4%. Prior to this vote, Zimmerman Advertising provides a thorough marketing plan for the campaign based on a 2% budget and a 4% budget. They provide an analysis of what is required, details the marketing efforts, disclose the amount of brand awareness to be generated and lastly project the anticipated results. At this point, franchisees are asked to vote but there is a threshold this time around. The company needs to identify what percentage of votes would constitute as a majority ruling. It could be 66%, it could be 75%; whatever they deem as “majority” should be established. Based on the result of the votes will dictate how the company proceeds. A lot of hope would be put into the agency to do a phenomenal job in delivering the proposed plans and to demonstrate the clear value of an increased advertising fee.

Shall this plan not go as intended I think the option for an increased marketing budget should then be made available to local markets. This will at least allow for a consistent message and for increase advertising in areas that are willing to make the investment. Considering the original vote resulted in two-thirds supporting the new plan, I would anticipate the number would be unanimous with the proposed approach.

The proposed solution is the best solution because a franchisee business allows entrepreneurs who desire their freedom to still have the structure and guidance of a larger entity. The larger entity here is Firehouse Subs. As the backbone to the franchise community, Firehouse subs needs to have a dominant approach with this particular topic. Firehouse Subs must have a consistent branding message as this is the brands identity. Franchisees have many options in all aspects of the institution they belong to and will have plenty of opportunity to make choices based on their preferences. There is strong confidence the proposed solution will deem favorable to all parties involved.

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