How Co-op connection keeps America eating!

KFC, Pizza Hut, Taco Bell, Long John Silvers, A&W, Burger King, Dunkin’ Donuts, Togo’s, Baskin-Robbins, Dairy Queen, Subway and many more fast food franchisees feed millions of Americans every day.

So what do these famous US brands have in common? The answer is they are all supplied and serviced by franchisee owned co-operatives. Wherever you go in America fast food is there. Whether it is urban or rural, downtown or suburb, shopping malls or freeway exits, a fast food franchise awaits you.

No other retail business in the world is as omnipresent as the fast food franchise. Fast food franchising handles more than a third of all US retail sales at more than 500,000 outlets and employs more than eight million people. What nobody knows is that this mega-billion dollar retail engine is fuelled every minute of every day by a massive supply chain of economically efficient co-operatives.

Ownership

The franchise system works like this. The franchiser owns the name and the format and licenses the retail outlet to a franchisee or retains ownership as a franchiser owned unit.

In the 1970s, the independent franchisees began to organise distribution co-operatives to create an additional profit stream from the supply chain. The higher the percent of franchisee owned units, the more likely supply will come from a franchisee owned co-operative. McDonalds is unique in that it is the one franchise that owns a higher proportion of the total retail units. McDonalds owns only 2,100 of the 13,500 US stores and 9,000 of the 30,000 restaurants worldwide. McDonalds’ franchisees are one of the few that continue to purchase only through the parent company.

Unified Foodservice Purchasing Co-op, LLC (UFPC) manages the supply chain for all corporate and franchise-owned units under the YUM brand. KFC is part of Yum! Brands Inc, which is the world’s largest restaurant system with over 32,500 KFC, A&W, Taco Bell, Long John Silvers’ and Pizza Hut restaurants in more than 100 countries and territories. UFPC negotiates volume purchases of equipment, food, packaging, and other supplies for their retail units. The annual purchasing volume is over $5 billion (£2.5bn), making it the largest purchasing co-operative of its kind in the quick-service restaurant industry.

Yum! Brands claim that since 1999 the co-op has saved franchisees $539.6 million (£271.5m) by negotiating costs, making volume purchase commitments and assuming other procurement functions and risks. Burger King set up its own purchasing co-operative in 1991. The co-op conducts over $3bn (£1.5m) dollars of business annually for its worldwide franchises, of which it has more than 11,000. Almost 90 per cent of the outlets are franchisee owned.

Dunkin’ Donuts is the world’s largest coffee and baked goods chain, serving more than three million customers per day. In the US, there are approximately 5,300 Dunkin’ Donuts locations in 34 states. There are more than 7,000 Dunkin’ Donuts worldwide, US retail volume of Dunkin’ Donuts is $4.3bn (£2.15m). The owners of Dunkin’ Donuts also own the franchise for Baskin-Robbins Ice Cream and Togo’s. All three brands are served by the same supply co-operative.

Subway’s franchises are served by the Independent Purchasing Co-operative (IPS). All Subway outlets are franchisee owned and none are company owned. In the US, Subway does over $8bn (£4bn) a year in retail sales.

Quality

Subway operates in more locations in the US than McDonalds. Independent Purchasing Co-operative is owned by over 21,000 U.S. and Canadian franchisees and provides supply chain management services to the Subway restaurant system. IPC’s mission is to negotiate the lowest costs for purchased goods and services, improving quality and enhancing competitiveness and insuring the best value to Subway franchise members.

In all the cases except one, the franchisees never own the franchise. The one exception is Straw Hat Pizza which operates in California and Nevada. Its co-op status came out of a protracted legal situation when the franchiser wanted to offload the franchisees. In this situation, the franchisees came together and bought the entire franchise.

Today the co-op’s 50 restaurants combine for over $30m (£15m) in annual sales. The co-op operates on a one-member-one-vote system in electing its board. Others are taking notice of Straw Hat. In 2006 it was named “Franchiser of the Year” by the American Association of Franchisees and Dealers.

Robert Purvin, the AAFD chair, said: “Straw Hat’s license agreement embodies fairness, and as a co-op, the company takes maximum advantage of the group purchasing synergies that should be the rule in franchising.”

Most franchisees are family run. Yet their appreciation of the democratic model of decision making, member involvement and profit sharing would make you proud of how far Co-op values have travelled in corporate America.

SUCCESS ... Straw Hat Pizza is a franchise co-operative owned by its members

www.thenews.coop

A CO-OP LETTER FROM AMERICA

BY DAVID J. THOMPSON

22 News agenda