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The failure of business format franchising in British forecourt retailing: a case study of the rebranding of Shell Retail's forecourts

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Keywords

Franchising, Brands, Retailing, Case studies

Abstract

As a result of an increasingly competitive petrol retailing environment and the rise of convenience stores in the food retailing sector, oil companies in Britain in the 1980s began to diversity into food retailing and convert their petrol stations into forecourt convenience stores. Drawing on case study evidence of Shell Retail, the paper examines how the company attempted to build its organisation into a strong brand by rebranding its forecourt outlets and introducing business format franchising to manage them. Utilising franchising, branding and food retailing literatures, the work investigates not only why Shell Retail believed business format franchising was more appropriate than traditional franchising or in-company management for its rebranded forecourts but also the factors that eventually caused the arrangement to fail. In particular, the paper analyses the problems relating to business format franchising that Shell Retail encountered in order to provide guidance for other retailers who may be considering using it as an instrument in the rebranding process.

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Introduction

During the 1980s and 1990s there were two significant developments in retailing in Britain. The first was that a growing number of retailers were organising their geographically dispersed outlets as business format franchise systems. By 1997 it was estimated that no less than 19 per cent of retail sales in Britain were being made through franchised outlets (Clarke, 1997). The second development was that a number of large retail chains including Boots, Sainsbury, IKEA, Body Shop, Next, Benetton, and Tesco were increasingly being recognised as strong brands (Aaker, 1996; Randall, 1997). Brand strength results in added value and therefore increased competitive advantage for the organisations concerned (De Chernatony and McDonald, 1992; Aaker, 1996; Randall, 1997).

The simultaneous appearance of these two developments resulted in a number of retailing chains attempting to build their organisations into strong brands by rebranding their outlets and introducing business format franchising arrangements to manage them. Among these was Shell Retail, the business unit of the oil giant Royal Dutch Shell, responsible for managing the distribution and sale of Shell's motoring fuels in Britain.

In 1991 Shell Retail began to rebrand its petrol stations as Shell Select forecourts. These forecourts were to be owner-managed on a business format franchise basis. Many Shell petrol stations were already managed by franchisees. However, their contracts were in the form of traditional franchises which differ significantly from business format franchises. Unfortunately for Shell Retail, the plan to use business format franchising in its rebranding programme proved to be a failure and within four years of its introduction was abandoned, even though its forecourts continued to be rebranded using conventional company managers.

This article examines not only why Shell Retail believed that business format franchising was more appropriate than traditional franchising or in-company management for its rebranded forecourts but also the factors that eventually caused the arrangement to fail. In particular, the problems relating to business format franchising that Shell Retail encountered are

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

analysed in order to provide guidance for other retailers who may be considering using it as an instrument in the rebranding process. The changing environment in which Shell Retail introduced business format franchising for its forecourts as well as the details of the franchise contracts are identified as significant factors in explaining its eventual failure.

First, however, the two predominant forms of franchising – traditional and business format – are compared in order to provide an insight into Shell Retail's motivation in opting for business format franchising rather than for traditional franchising or in-company management for managing their rebranded outlets.

Traditional and business format franchising

Franchising has been defined as a "type of business arrangement in which one party (the franchiser) grants a license to another individual, partnership or company (the franchisee) which gives the right to trade under the trade mark and business name of the franchiser" (Clarke, 1997, p. 21). The arrangement is formalised through a legally binding contract. Within this definition a number of different franchising arrangements have been identified. However the US Department of Commerce classifies franchising arrangements into two broad types – traditional and business format franchising (Lafontaine and Shaw, 1998). Traditional franchising involves using franchisees to distribute a product under a franchiser's trademark (Hoffman and Prebles, 1993). This form of franchise system is commonly found among oil companies and their petrol retailers. It is also used in selling cars and for bottling soft drinks. Traditional franchising may be regarded essentially as a distribution arrangement through which the manufacturers (the franchiser) ensure that there are sufficient outlets to sell their products over a wide geographical area.

In contrast to this business format, franchising has been described as a form of "business cloning" (Hoffman and Prebles, 1993). As Hoffman and Prebles (1993) contend, business format franchisers seek to have franchisees replicate in their local community an entire business concept, including product or service, trade name and methods of operation. Franchisees are provided with details of the franchiser's trade secrets, as well as everything else necessary to establish a previously untrained person in their own legally separate business, running it with continuing advice and support on a predetermined basis for a specific period of time (Clarke, 1997). The franchiser's control over the franchisees' activities may extend over products sold, price, hours of operation, condition of plant, inventory, insurance, personnel, and accounting and auditing (Rubin, 1978). The franchiser also normally provides the franchisee with information systems, thorough training programmes and a detailed operations manual so that "each franchise operates within the franchiser's corporate image, offering customers consistency in product and/or service. Consistency day in, day out from every location in the network is expected" (Clarke, 1997, p. 22).

One key characteristic of business format franchising that differentiates it from other types of franchising is that existing franchisees are legally permitted to sell on their contract if they wish to.

Franchising literature suggests a number of theories to explain the existence of franchising. The three predominant ones are resource constraints theory, transaction costs analysis, and agency theory (Lafontaine and Kaufmann, 1994). The resource constraints theory argues that franchising is adopted when franchisers are keen to expand their businesses into new markets but do not have the resources available to do so. In these circumstances franchising allows the franchiser to achieve rapid and effective market penetration using franchisee capital (Curran and Stanworth, 1983). In contrast to this, transaction costs analysis suggests that franchising may be used as an alternative to full ownership when the administrative costs of the firm, particularly those of monitoring and control, become excessive. This is particularly the case when the firm operates on the basis of a widely dispersed network (Stanworth, 1993). Rubin (1978) has argued that monitoring costs in these firms are increased by shirking and excessive consumption of leisure by employees with no financial interest in the success of the concern. Franchising provides a solution to

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

this problem in that franchisees retain all their profits once they have paid their fees. They are therefore motivated not to shirk.

Finally, agency theory argues that franchising has become increasingly popular because, if it is properly managed, it is mutually beneficial to both parties. Franchising may be seen as a typical agency relationship. An agency relationship is present whenever a principal (e.g. the franchiser) must depend on the agent (the franchisee) to undertake some action on the principal's behalf (Dant and Nasr, 1998). In a franchise system franchisers must depend on their franchisees to run their businesses efficiently. In return franchisers not only offer their franchisees support and advice in the form of information systems, training and an operations manual, but they also monitor their activities to ensure that the reputation of the franchise systems is not being damaged in any way by the activities of any one of them (Rubin, 1978). It is, therefore, in the interests of both the franchisers and the franchisees to optimise their efforts to make the franchise a success.

Transaction costs analysis and agency theory may be seen as providing a more appropriate theoretical framework than resource constraints theory for understanding Shell Retail's decision to adopt business format franchising over conventional ownership for managing its rebranded forecourts. However, it does not explain why Shell Retail favoured business format franchising over traditional franchising. The main reason for this was the potential for business format franchising, with its stringent contracts, detailed operations manuals, common management information systems and centralised training, to offer far greater overall consistency of performance than traditional franchising over a geographically dispersed chain of outlets. Shell Retail believed that consistency of image and of operations, as well as of management and employee behaviour, was essential to the success of its rebranding programme. To appreciate why this was the case the nature of brands and the branding and rebranding process need to be analysed. So too do the circumstances in which Shell Retail was operating when it made the decision to initiate the rebranding process.

The nature of brands, branding and rebranding

Branding originated not all that many years ago when mass production and wider distribution led manufacturers to identify (or brand) their merchandise in a recognisable way, so as to offer a promise of consistent quality (Cowley, 1991). According to Feldwick (1991, p. 21) "at its simplest a brand is a recognisable and trustworthy badge of origin, and also a promise of performance". Essentially, the "badge of origin" is the symbol, logo or trademark by which an item or brand is recognised. For De Chernatony and McDonald (1992), however, branding is much more than creating a badge, symbol or trademark, contending that branding is not simply "to do with naming products" or "about getting the right promotion with the name prominently displayed" or "getting the design right". Rather, it is concerned with creating an identity for the item concerned. They explain the purpose of branding as facilitating the organisation's task of getting and maintaining a loyal customer base in a cost effective manner to achieve the highest possible return on investment. Randall (1997) notes that the brand must always deliver value and the value must be defined in consumers' terms if branding is to be successful. He goes on to explain that if the target customers and consumers of a product or service perceive it to have a unique identity that differentiates it from other similar products (or services), and they can describe it and the unique set of benefits it offers, then it is a brand. De Chernatony and McDonald's (1992) definition of a successful brand as "an identifiable product, service, person or place, augmented in such a way that the buyer or user perceives relevant unique added values which match their needs most closely" supports this view.

It is the perceived uniqueness of a brand that gives it its value. As De Chernatony and McDonald (1992) explain, "brands are able to sustain a price premium over their commodity form since customers perceive relevant added values . . . The concept of added values is an extremely important aspect of brands, being their *raison d'être*". The added value of a brand over its commodity form is known as brand equity. According to Aaker (1996, pp. 7-8), "[b]rand equity is a set of assets (and liabilities) linked to a brand's

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm's customers". Brand equity derives from the image that the public has of the brand. It can be traced back to four sources – brand awareness, brand loyalty, the perceived quality of the brand and the impact of brand association on consumers' buying patterns.

According to Dowling (1993, p. 103), image may be defined as "the total impression an entity makes on the minds of people". The problem for any company wanting to improve its brand equity is that its image is outside the company's control (Abratt, 1989). As Randall (1997) points out, it is not the manufacturer who decides whether an item is a strong brand or not. He rightly maintains that there have been attempts to create brands that have manifestly not succeeded. However, while a company cannot control the public image of its offerings it can manage their identities. Aaker (1996, p. 68) defines brand identity as "a unique set of brand associations that the brand strategist aspires to create or maintain. These associations represent what the brand stands for and imply a promise to customers from the organisation members". In order to build brand identity management must ensure both that organisation members are aware of what the brand stands for and that they have the resources to fulfil the implied promise.

The first stage in any brand identity programme must be to provide some way of identifying the brand clearly and unambiguously, so name, legal protection and design elements are important (Randall, 1997). When, for any reason, the badge or symbol of identification becomes incompatible with the desired brand identity then it is time for the company to rebrand its offerings. This frequently occurs when a business diversifies into an unrelated set of activities with which the existing brand image is not consistent.

When a firm diversifies it can adopt one of a number of different approaches to branding its new products/services. These include extending the brand, that is, simply bringing the new items in under the existing brand name; creating a new brand which is in no way identified with the firm's existing brands; using sub-branding where a sub-brand name serves as a qualifier to the parent brand; or adopting nested branding which is similar to sub-branding except that it suggests a wider degree of separation of the new product from the parent brand name (Bhat *et al.*, 1998).

Brands can take many forms. There are single product brands, line brands, range brands, umbrella or pillar brands and company, family or source brands (Randall, 1997). Services may also become brands, though this is less common because services are intangible, and perishable, delivery and consumption are inseparable and quality is less easily controlled than for products. These characteristics of services make it extremely difficult to create badges and symbols of identity for them unless a way of summarising the brand in a tangible form is found (Randall, 1997). This tangible form may, in fact, be the organisation offering the product or service. In building an organisation as a strong brand the activities of the entire organisation must be addressed. Knox and Macklan (1998) suggest that for organisational branding to be effective firms must offer a "unique organisation value proposition" – shortened to UOVP. They contend that "the UOVP is conceived as a means of expressing value in an environment where customer value is inextricably linked to the core processes of the organisation that operate end to end serving customer needs" (Knox and Macklan, 1998, p. 48). According to Bickerton (2000), a UOVP provides a mechanism for achieving both brand consistency and continuity by reinterpreting brand and customer value across the entire organisation. Organisational branding is effective when customers perceive that an organisation is offering them a unique value proposition. Much of the UOVP derives from the organisation's reputation and the performance and quality of its products and/or services.

However, when a firm is offering a new product/service or is trying to change its organisational identity it does not have a reputation on which to base its UOVP. In order to build up a reputation the firm must prove that it can offer a consistent quality of product/service both over time and where necessary in a number of different locations.

Knox and Macklan (1998) suggest that organisational reputations are affected by such factors as their mission statements, values and ethics, as well as by the quality of

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

their products/services. Aaker (1996) reinforces this view by arguing that building a strong organisational brand is based on the premise that it takes an organisation with a particular set of values, culture, people, programs and assets/skills to deliver a (particular) product or service. The role of these factors in enhancing corporate image has also been emphasised in the corporate identity literature in recent years (Stuart, 1999; Bickerton, 2000). However, Aaker (1996) points out that organisational identity is not necessarily the same as corporate identity.

In summary, then, it is apparent that when a firm rebrands an organisation because it has diversified it cannot offer customers a UOVP immediately because it has not yet created a reputation for itself. It can, however, begin the process by creating suitable badges, symbols, logos, trademarks or the equivalent by which the business can be identified in the future and by offering a consistent quality of product/service. One area of the service sector in which this aspect of branding/rebranding is more effective than others is retailing. This is because the service provided is normally "delivered through physical premises" so that "normal design techniques can give the stores ... concrete characteristics that embody the brand's value" (Randall, 1997, p. 94).

Along with establishing the badge of origin and symbols of identity of the rebranded organisation the firm must ensure the quality of the product or service. In retailing quality of product/service is generally seen as synonymous with the level of customer satisfaction (Sivadas and Baker-Prewitt, 2000). Customer satisfaction is determined not only by the variety, quality and price of the products on sale but also by the attitude of the staff and the attributes of the distribution channels – "the shops, stores, retail outlets or whatever the current jargon is" (Olins, 1989).

Finally, the firm should work to gain the commitment of the members of the rebranded organisation to the values, culture and ethos that are seen to be critical to its success. This, perhaps, is the most difficult task for the firm to achieve, particularly when the service is offered in a number of different locations, as is the case with many retail chains, including Shell Retail, which in 1991 was responsible for the 2,600 Shell petrol stations operating in Britain (Dwek, 1992).

Shell Retail's decision to rebrand its forecourts in that year was precipitated both by the significant changes in the petrol retailing environment, but also by the changing nature of forecourt retailing throughout Britain.

Forecourt retailing: historical context

The increasingly competitive petrol retailing environment

Because of the way in which the oil industry had developed since the early 1950s, major oil companies had paid little attention to their downstream activities. Oil was plentiful and demand for it kept on rising. As Sampson (1975) explained, the oil companies took little trouble to make money out of filling stations which they regarded primarily as outlets for their "flood of oil". By the early 1970s there were 37,000 petrol stations in Britain (*The Times*, 1980). The majority of these, some 70 per cent, were independently owned and operated through licenses with the major oil companies. The others operated as traditional franchisees of the major oil companies.

However, the situation had been dramatically changed by the oil crises of the 1970s which had drastically reduced the world's output of oil and not only caused its price to quadruple within a few months of October 1973 and to rise by a further 260 per cent in 1979 but also eventually pushed the world economy into recession (Brown, 1992). In the early 1980s world demand for oil eventually began to fall and with it the fortunes of petrol retailers in Britain and elsewhere. At the same time, however, oil output began to rise again, thus creating a glut on the market and reducing the viability of the more marginal petrol stations even further. The number of petrol stations in Britain began a steady decline. By 1980 the number of petrol stations in operation had fallen to 26,500 (*The Times*, 1980) and by 1997 only 15,000 remained (Dymock, 1994).

The plight of petrol retailers in Britain was exacerbated by two factors. First, a number of supermarket chains had begun to sell petrol more cheaply than the traditional filling stations, and second, the government has, since the 1970s, imposed increasingly heavy taxes on petrol.

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

In 1974 Tesco began selling cheap petrol in Rochdale, using it as a "loss leader" to attract customers into its store (Cunningham, 1996). Tesco was soon followed by Sainsbury and other supermarket chains. Whilst the share of the petrol market taken by the supermarkets was initially small it gradually increased. By January 1991, 6.8 per cent of British petrol sales were made through supermarkets (Dwek, 1992). However, this increased dramatically during and after the Gulf crisis and war of 1990-1991 as a result of the supermarkets holding their prices steady whilst traditional petrol retailers pushed theirs up. During the Gulf crisis and war the difference between petrol prices at supermarkets and those at filling stations rose to as much as 15 pence per gallon. By early 1992 supermarket sales accounted for 12 per cent of the British petrol market. The supermarkets continued to undercut the prices of traditional petrol stations even after the crisis so that by 1994 they had captured 18 per cent of the market. A year later they were selling a quarter of all the petrol sold in Britain (Dymock, 1994; Patten, 2000).

The second factor impacting on the position of traditional petrol retailers was the government's imposition of increasingly heavy petrol taxes. The government began increasing the duties on motoring fuels in the mid-1970s in order to cushion the nation from the worst effects of the world recession. However, this policy has been maintained ever since as a way of helping the government pay for the nation's public spending requirement (Brown, 1992). Between 1980 and 1982 the tax on petrol rose by 29 pence per gallon pushing the average price of a gallon of petrol up from less than £1.30 to nearly £1.60 (Davis, 1982). By 1986 the proportion of the total price of petrol sold to the public accounted for by taxes had reached 58 per cent. This rose to over 60 per cent in 1989 (Huxley, 1986; Eason, 1989). Further fuel duty increases imposed between 1997 and 2000 pushed it up a further 21 per cent, so that it accounted for nearly three-quarters of the final price of petrol to the customer (McVerry, 1999; Morgan, 2000). In the light of these developments a number of oil companies had become increasingly concerned about the plight of their petrol retailers and were looking for opportunities to enhance their profit-making potential. These opportunities became apparent as a result of developments in the food retailing sector.

Developments in food retailing

Over the past quarter of a century significant social change in Britain has fuelled a radical shift in the structure and pattern of food retailing. First, the rising standard of living has led to more people owning cars, which has facilitated the development of profitable out-of-town retailing on US lines (Burke and Shackleton, 1996). Again, increasing numbers of people now own fridges and freezers which has altered food shopping patterns dramatically, with a fourfold increase in consumption per head of frozen foods taking place between 1971 and 1993 (Burke and Shackleton, 1996). Furthermore, as more women take up paid employment so they have less time to spend on shopping. Recent studies suggest that the pressure of time is a major stressor among grocery shoppers (Aylott and Mitchell, 1999; Harvey, 2000). Women also have less time for other domestic chores including cooking.

These developments have had two significant consequences. First, "one stop shopping", whereby the shopper goes to one shop and does the bulk of his/her shopping for a given time period, usually a week, a fortnight or a month, thus saving on both time and travel costs, has become increasingly common (Harvey, 2000). Second, demand for convenience foods, such as "ready to eat" meals, has risen dramatically (Burke and Shackleton, 1996). To accommodate these two trends the multiple supermarket chains have increased both the average size of their outlets and the range of products stocked. Major stores now carry between 25,000 and 50,000 products (Harvey, 2000). They have also located their stores out of town though this trend has been tempered in recent years by restrictions on planning permission for new out of town super or hypermarkets (Harvey, 2000).

The rise in one stop, out of town shopping created a second phenomenon – that of "topping up". "Topping up" occurs because most people shop in bulk in supermarkets then top up as required (Dymock, 1994). Bread and milk are typical "top up" items (Krasner, 1997). Other categories of items that customers might buy between their major trips to hypermarkets are distress items such as headache tablets, casual items such as

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

newspapers and cigarettes, and impulse purchases such as confectionery. "Topping up" has spawned the growth and development of convenience retailing for which convenience stores are typical outlets. A convenience store has been defined as a shop "with between 500 and 3,000 square foot of selling space, trading for seven days a week, including public holidays, open continuously from 8.00 am to 11.00 pm or for 24 hours a day, located within or close to a local community, for whom it offers a friendly or nearby source of regular daily purchases, top up and emergency items" (Keynote Report, 1995). By 1994 convenience retailing had become the most healthy area of food retailing in Britain. The number of convenience stores operating in Britain was estimated to have risen from 403 in 1990 to 1,170 in 1996 (Cull, 1997) and by 1998 one-sixth of Britain's grocery sales were being made through convenience stores (Connon, 1998). It was the development of convenience shopping that provided the beleaguered petrol retailers with an opportunity to revive their fortunes by converting their stations into forecourt convenience stores.

Forecourt convenience stores

From the early 1980s onwards an increasing number of petrol stations were being transformed into forecourt convenience stores. As the name implies these are convenience stores located on petrol forecourts. A number of the major oil companies were at the forefront of the process. For example, in 1983 BP opened two 900 sq. ft. self-service grocery shops selling fresh food and the full range of prepacked and packaged foods, washing powder and toiletries on petrol station premises (Young, 1984). So successful were these that BP planned to convert a hundred more petrol stations to the same format in the next few years. Each would carry between 1,500 and 2,000 items of stock (*The Times*, 1985). Texaco, Total, Esso, Jet and Mobil also became involved (Young, 1984; Cunningham, 1996). They gave their forecourt convenience stores new names and adjusted the terms of their traditional franchises in an effort to increase control over the running of their sites (Bracey-Gibbon, 1994). Thus Esso introduced its "Partnership agreements", BP its "Harmony franchise", Texaco its "Team franchise" and Jet its "Retail charter" (Dwek, 1992; Bracey-Gibbon, 1994). The contracts involved in these arrangements normally lasted for a maximum of five years. However, the franchise contract could not legally be sold on to a new franchisee. Thus they could not be classed as business format franchises.

Unlike the other oil companies, Shell was slow to react to the changing environment. It was not until 1991, when the Gulf crisis and war were forcing petrol prices upwards and intensifying the squeeze on the profit margins of petrol retailers, that it became involved and embarked on a nationwide programme to convert its petrol stations into forecourt convenience stores (Dwek, 1992). It was as a result of this belated diversification into convenience retailing that Shell Retail felt the need to rebrand its forecourts, using business format franchising to manage them.

Shell Retail

Shell Retail was, in 1991, one of over 260 operating units of Royal Dutch Shell (commonly known as Shell in Britain), which had recently overtaken Exxon as the world's largest oil company (Knowlton, 1991). Royal Dutch Shell had revenues of over $107 billion and was second only to General Motors on *Fortune*'s Global 500 list of largest industrial corporations. It was renowned for the autonomy its divisions throughout the world enjoyed and had a reputation for being a very well managed corporation. It was one of the world's great industrial enterprises, with cashflow generation and balance sheet among the strongest in the world (Knowlton, 1991).

Despite this, Shell Retail was struggling. Its share of the British petrol market had fallen to 14 per cent from 19.6 per cent in 1985 (Dwek, 1992). Esso, with 17 per cent of the market, had overtaken Shell as the market leader. The majority of Shell's forecourts were either Shell or dealer owned, and supplied and managed on the basis of a five year traditional franchise contract. There were also a few that were owned and managed directly by Shell Retail itself, as well as a small number of private dealers to whom Shell Retail simply supplied fuel.

Whereas this mixture of ownership and control had allowed Shell Retail to manage its petrol distribution satisfactorily in the past, by the early 1990s, it was rendered ineffective

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

because of the major changes that had occurred in the petrol retailing environment. By then, most of the other large oil companies with petrol stations in Britain were already operating a number of forecourt convenience stores. Thus, Shell Retail decided that the only way to regain its competitive position was to convert its petrol stations into the leading brand of forecourt convenience store chain in Britain by rebranding them and by using a system of business format franchising to manage them. Esso, the leading petrol retailer at the time, was totally scathing of Shell's plan, arguing that "everything that Shell is doing we did five years ago. We have constantly been ahead in meeting customer needs" (cited in Dwek, 1992, p. 23).

The rebranding of Shell's forecourts

With the move into forecourt convenience retailing it became apparent to the oil companies that they needed to differentiate these premises from their traditional petrol stations. Most of them did this by sub-branding their forecourt convenience stores by adding a word like "Shop" or "Mart" to their petrol brand name. For example, BP and Esso just added the word "Shop", Mobil added "Mart" and Texaco added the word "Star". However, Jet, the petrol retailing arm of the American oil company, Conoco, adopted a new brand approach, dropping the name of its petrol completely and renaming its forecourts Jiffy Shops (Bracey-Gibbon, 1994).

As the number of forecourt convenience stores in operation increased and the industry became more competitive two problems became apparent. First, market research carried out in the early 1990s looking at the public's impression of petrol stations indicated that customers found them "not very warm or friendly, associated with grease and heat and not very clean" (Binney, 1994). Second, it was acknowledged that petrol retailers were notorious for failing to achieve consistency both over time and across locations (Dwek, 1992).

Bearing these issues in mind, Shell Retail set about converting and rebranding its forecourts. One of Shell's prime concerns in doing this was to claw back its share of the petrol market. It hoped to create Britain's leading brand of forecourt convenience store chain into which customers would be enticed not only to buy "top up" and other items but also to fill up their cars with its petrol. Furthermore, Shell Retail anticipated that, as a result of their initial shopping experience at Shell's stores, customers would deliberately seek out its outlets at which to both "top up" and "fill up" in the future. Shell Retail therefore felt it needed to maintain close brand association between its chain of forecourt convenience stores and its brand of fuel. It also wanted to gain much tighter control of its image by developing a new and much stronger relationship with its dealers and to harness them behind the brand (Dwek, 1992).

Shell Retail therefore opted to sub-brand its chain of forecourt convenience stores, retaining both the word "Shell" in its trade name and the parent company's well established yellow shell logo, but adding the word "Select" to the trade name to indicate that the outlet was not a traditional petrol station. The forecourts were also completely redesigned and refurbished. As Jim Slavin, director and general manager of Shell Retail, explained it was tempting "to splash on some paint, change the lights and shout 'Hallelujah', but we wanted to go behind the façade, to dig much deeper than our competitors have done" (cited in Dwek, 1992, p. 23). Shell sought to make its forecourts "more friendly, more domesticated, more indoors than outdoors" (Binney, 1994). Attention was paid to detail. For example, on the stores the edges of the canopies were made to form a subtle S-curve. They also began to feature a "portico" – "a clean white frame which makes any scruffy ancilliary building on the site look like a purpose built modern addition" (Binney, 1994). These features provided the visual symbols of identity. However, as Balmer and Wilkinson (1991) explain, a visual identity may be seen as only one part of a mosaic which forms the organisational brand.

The interiors of the stores were also redesigned to appear "larger, brighter, undoubtedly cleaner" (Dwek, 1992) in order to reduce the negative impact of perceived crowding on customer satisfaction. Cluttered shelves, narrow and irregular aisles and understaffing can all increase the customers' perception of crowding (Aylott and Mitchell, 1999).

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

To build a strong brand of forecourt convenience stores Shell Retail needed to transform a patchwork of widely differing sites into a network of modern retail outlets with high standards of operation, service and management across the country (Bracey-Gibbon, 1994). It hoped to do this by outperforming its competitors by being the only major oil company to introduce business format franchising for its forecourt owner/managers.

Shell's business format franchises

Shell Retail anticipated that its new business format franchises would herald a change of corporate culture and contended that their introduction was "the most radical change in petrol retailing since the first sites were established 100 years ago" (Dwek, 1992, p. 23). Franchisees' contracts were extended to ten years, in contrast to the five year contracts of the other oil companies' franchisees. Furthermore the contracts could be sold on by the franchisee at any time during that period. Franchisees paid up to £32,000 for the contract on top of a £40,000 start-up fee. They also paid a substantial annual fee.

In return for the payments Shell franchisees received intensive training, constant promotional and advertising support, free pump maintenance, regular business forecasts and full insurance. To show its commitment to its franchisees Shell spent some £500,000 refurbishing each forecourt. It also invested "giant sums of money" in staff training to ensure a high quality of service. Gary Anderton, Shell Retail's franchise manager, believed that business format franchising would ensure that once the standards had been established they would be maintained (cited in Dwek, 1992). Through its business format franchises Shell Retail intended to create a newly motivated breed of dealers, with a much more vested interest in the Shell brand. It was anticipated that a typical Shell forecourt proprietor would be a "complete businessman, with the responsibility for his success in his own hands" (Dwek, 1992). Shell Retail envisaged that its programme would increase both the value of sales through its forecourt stores and their profitability with the result that the value of the dealer's franchise should rise considerably. Observers of the petrol retailing industry were more sceptical about the scheme. A spokesman for Esso poured "scorn on it", while Bruce Petter, director of the Petrol Retailing Association, argued that it was a "false panacea" that would "cripple many dealers" (cited in Dwek, 1992).

Unfortunately for Shell Retail and its franchisees, Petter and the other sceptics proved right. Although sales of convenience items at Shell forecourts were increasing by up to 20 per cent per year in the early 1990s (Bracey-Gibbon, 1994), by 1992, when just 300 forecourts had been rebranded, it had already become apparent that the franchises were just too expensive (Dwek, 1992). By then 51 of the new style forecourts were already said to be losing money. By 1994 it had become clear that it was not feasible for Shell Retail to continue to use its existing business format franchise contracts as part of the rebranding process. Bracey-Gibbon (1994) reported that the high franchise set up cost, less than projected volumes and high claw-back from shop and fuel sales, all compounded by the recession, have meant that franchisees have experienced acute profitability problems. Shell Retail was forced to buy back any franchises that could not be sold on. In 1993 it closed 200 forecourts as well as turning many franchises over to its own company operation (Bracey-Gibbon, 1994). In 1994 it abandoned its efforts to induce its forecourt owner/managers to become business format franchisees and offered compensation to retailers not wanting to stay in the network. It was clear that Shell Retail's intention of creating a nationwide chain of business format franchised forecourt convenience stores as part of its rebranding programme had failed.

The problems with Shell's franchises

There were two main reasons why Shell Retail's plan to build a business format franchise system of forecourt convenience stores as part of its rebranding programme proved inoperable. First, there were the extremely high start-up costs both for the franchisees and for Shell Retail itself, and second, although sales grew significantly, the increase in profits that this provided simply did not cover the franchisees' costs. Essentially both of these problems resulted from a lack of understanding on the part of Shell Retail of the nature of convenience store

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

shopping rather than from any weakness in the concept of business format franchising.

It has been argued that there are two basic types of shopping. The first is task oriented functional shopping where purchasing is more planned, shopping trips are shorter and are less likely to continue after making a purchase (Aylott and Mitchell, 1999). The second type of shopping – non-task shopping – is recreational. It is a form of leisure activity in which the customer may have little interest in acquiring products or services but is also likely to shop impulsively. The impact of the shopping environment is likely to affect these two groups of shoppers differently. For task oriented shoppers the perceived crowding of a shop is likely to have a more negative impact than for recreational shoppers. However, other facets of the shopping environment are less likely to affect task oriented shoppers.

Forecourt convenience stores have become increasingly popular because they fulfil the needs of the public to buy "top up" and distress items both during traditional and antisocial hours, close to home or while travelling. Thus, customers in forecourt convenience stores are usually task oriented. Their main concern is to purchase the specific item required, either in commodity or brand form, as quickly as possible. As long as the item concerned is in stock and they are not required to queue for long at the check out, other aspects of the shopping environment are unlikely to have a significant impact on customers' level of satisfaction. At the same time, because the shoppers are task oriented they are unlikely to be enticed into spending time browsing over other items or to make high value impulse purchases. Neither do they necessarily fill their cars with the parent brand of petrol.

Furthermore, research suggests that there is little evidence that customer satisfaction necessarily translates into loyalty, repeat patronage or repeat purchases (Sivadas and Baker-Prewitt, 2000). To achieve this kind of response from its customers Shell Select stores needed to gain a favourable "relative attitude", that is one which is "high compared to potential alternatives" (Dick and Basu, 1994). However, given the functional and supplementary nature of forecourt convenience store shopping this was difficult to do.

As far as grocery shopping in Britain is concerned the public usually restricts repeat patronage to the stores at which one stop shopping occurs. Thus, for the Shell Select stores to increase their sales more than they did and to be as profitable as Shell Retail had anticipated they really needed to attract customers to do their one stop shopping at their stores. This would have entailed competing directly with the large multiple supermarkets both in product variety and price. Unfortunately Shell Select stores were unable to do this. Over the past quarter of a century British supermarkets have been at the forefront of developments in distribution and supply chain management, which has allowed them to create and fulfil a demand for product differentiation and high added value unmatched in Europe (Harvey, 2000). British supermarkets have, through their innovations, been able to "cream" the top of the quality range across a wide range of produce and sourced from a wide geographical area (Harvey, 2000). Thus the UK supermarket is now widely taken as a model for food retailing across Europe. Some have the capacity to stock no less than 50,000 items compared with the 2,000-3,000 stocked in a typical convenience store. Furthermore, because of the purchasing power of the large multiple food retailers their unit costs can be kept much lower than those of their smaller competitors. These lower costs are usually passed on to the customer as lower prices. Shell Retail, which had only recently entered the food retailing environment, was just not in a position to compete with them. As late as 1996, in common with the other oil companies it still lacked centralised distribution, own label development and sales based ordering (Cunningham, 1996). As one commentator explained at that time, the oil companies generally needed "much more expertise than they are demonstrating so far to make a good fist of neighbourhood retailing" (cited in Cunningham, 1996).

In these circumstances, no matter how committed the majority of Shell's franchisees were to their businesses and to the company, their turnover was simply not big enough to provide them with sufficient funds to cover both their initial start-up costs and their annual franchise fee.

Conclusion

As a result of the increasingly turbulent and competitive petrol retailing environment, on

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

the one hand, and the rise of convenience stores in the food retailing sector on the other hand, oil companies in Britain had begun, in the 1980s, to diversify into food retailing by converting their petrol stations into forecourt convenience stores. To do this, most of the large oil companies changed the name of their forecourt store chains and tightened up their traditional franchises. However, none of them adopted business format franchising and none of them had the level of start-up costs that Shell Select franchisees had. Nor were the franchisees of the other oil companies expected to pay such high annual fees (Bracey-Gibbon, 1994). As a result they did not suffer from the same profitability and cashflow problems as the Shell franchisees.

Shell was one of the last major oil companies in Britain to move into forecourt convenience retailing. It therefore felt that in order to maintain and enhance its competitive position it needed not only to rebrand its forecourts but also to adopt a system of business format franchising for managing them. Shell Retail hoped that by doing this it would offer its customers a unique organisation value proposition, which would result in significantly increased sales of both convenience items and of its petrol. Shell Retail believed that the use of business format franchising in the management of the forecourts would ensure not only consistency of service but also commitment by the franchisees to a common organisational culture and ethos, which in turn would enhance Shell Select stores' reputation. The thinking behind this was logical – business format franchisees, whose earnings were dependent on the success of their franchises, were more likely to be committed to them than direct employees whose earnings were not affected by the business's performance. Furthermore, the dispersed nature of the outlets in a forecourt convenience store chain made monitoring of performance by the parent company very expensive. Business format franchising in these circumstances should theoretically have proved more effective than traditional firm ownership.

It should also have been more effective than traditional franchising, especially in the area of ensuring consistency of performance across the system. The stringency of the contract, the common operations manual, the intensity of the training and the common management information system should all have contributed to this.

Unfortunately, however, this was not the case. While the traditional franchisees of the other oil companies survived and even prospered from the increasing popularity of forecourt convenience retailing, the majority of Shell Retail's franchisees just found it too difficult to make their businesses profitable. Within three years it was apparent that the new business format franchises were simply not cost effective. This problem, however, did not arise because of any weakness in the concept of business format franchising. Rather, it arose from Shell Retail's lack of understanding of the nature of both forecourt convenience retailing and of the forecourt convenience shopping experience. This lack of understanding led Shell Retail to be overoptimistic about the potential of the Shell Select brand to create a UOVP and to build brand equity. It assumed that spending giant sums of money (both its own and franchisees') on rebranding, redesigning, and refurbishing its outlets and training their staff would inevitably lead to significantly increased profits. When this did not happen, despite rising sales, the franchisees could simply not survive. In 1994 sales through forecourt convenience stores in Britain accounted for just under £2 billion, of which £850 million was spent on food (Bracey-Gibbon, 1994; Mitchell, 1994). For many petrol retailers non-petrol sales accounted for over 50 per cent of their profits. Indeed sales of "top-up" items through Shell forecourts were rising by up to 20 per cent per annum at that time (Mitchell, 1994). Furthermore, it was predicted that the share of the convenience store market taken by forecourts was likely to rise by a further 7.5 per cent by the end of the 1990s (Keynote Report, 1995). Because of this, despite the failure of its franchise system Shell Retail continued its rebranding process.

In 1994 Shell Retail was opening five rebranded sites on average per week, and by 1997 Shell Retail was managing 850 wholly owned Shell Select forecourts throughout Britain (Dymock, 1994; Nelson, 1997). The chain did achieve some success. For example, it became not only the fifth largest newsagency chain in Britain but also the fifth largest seller of sandwiches (Dymock, 1994; Cunningham, 1996). Furthermore, in 1997 Shell Retail also began to rationalise its

International Journal of Retail & Distribution Management
Volume 30 · Number 5 · 2002 · 251–263

logistics by abandoning 30 of its 50 forecourt suppliers and taking control over every product ordered for its forecourts. Hays, the logistics company, was awarded a £100 million contract to distribute some 90 per cent of Shell Retail's supplies to its forecourts. Shell also introduced a range of own label products (Nelson, 1997).

Despite this, Shell Retail's rebranding programme never created significantly positive brand equity. Its performance highlights a number of problems that any convenience retailing chain considering rebranding as a way of increasing its competitive advantage should take note of. First, because of the generic nature of convenience stores it is difficult to create a significant amount of differentiation between one brand and another, thus inhibiting the potential for convenience store chains to create a UOVP. Second, because of the task oriented nature of "top up" shopping, consumers are typically more concerned with the accessibility of the shop and the availability of the appropriate items than the brand of the retailing outlet. Finally, the geographically dispersed location of the shops in a convenience store chain makes quality assurance across the brand problematic using traditional internal management systems. It is clear that business format franchising, with its ability to provide self-motivation of personnel and to encourage consistency of operations across all the stores in the chain, offers greater potential for building brand equity and gaining competitive advantage, so long as the start-up and annual fees for the franchises are reasonable. Unfortunately, in the case of the Shell Select franchisees, this was not the case.

It is perhaps significant that within eight years of the introduction of the ill-fated business format franchises and the rebranding programme the fortunes of Shell Retail and its parent company, Royal Dutch Shell, collapsed. In February 1999 it announced the worst results in its century long history (Mortished, 1999). As a result of this a corporate review of spending was carried out. Not only were costs slashed but new limits were imposed on capital spending on new projects (Connon, 2000). One can only surmise that if these limits had existed in 1991 Shell Retail might have been more careful in planning and thinking through its rebranding programme and its business format franchise system might still be operating successfully today.

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