Subway's Face Lift: Fixing Franchisor Flexibility

By now news of Subway's version 2.0—it's hoped for rebirth and revival— are available via the New York Post's Monday piece. Insiders in the restaurant industry knew it was inevitable. Still, there are several lessons seen in the Subway experience to date—and not coincidentally McDonald's, too—that are gaining steam at approximately the same time in the US (McDonald's problems in certain world markets like Japan were building for years).

Here is a list of observations to speed Subway's revival process along:

**Fix the over store development:** Certainly in the US—with over 1 million foodservice venues—can be jammed with too many restaurants. There is no life or death need to go out to eat, just to eat. Subway is aimed at the lunch market, which itself is finite, and has been declining in market share the last few years. With over 27,000 US restaurants—and negative same store sales for three years, the general upward bound of Subway US unit counts has been reached, (though certainly there are some good replacement locations can be found.) Subway is not publicly traded and doesn't need to put up big store development numbers every quarter. Pause the US store growth, smooth it out, and let the market catch up. As US Subways stores close, don't replace them. Try to find that point of reverse cannibalization where the closures benefit the remaining franchisees.

**Test, test, and test:** one of Subway's strengths is that it has 27,077 test stores in the US, where a multitude of new products and techniques can be tested. But yet, they didn't, apparently until now. Both Subway and McDonalds have hit dead momentum. System wide national rollouts, like this one, should be tested in whole markets. Unfortunately, Subway has no company stores and it has to rely upon getting the franchisees on board or bludgeoning them with the franchise agreement and operations manual to agree. There should be hundreds of tests underway.

**Not everything has to be the same everywhere:** rigid restaurant consistency from unit to unit was a selling point in the 1950s and 1960s, when restaurants chains began to develop after World War Two, with the birth of the Interstate System. Back then, consumers were turned off by lack of consistency experienced along the country roads. Since then, franchisors have perfected inspection rights, to insure everything is the same. As circa 1948 Dairy Queen Franchisee in Minnesota (not bound by the same contracts as today) said recently, “The corporations want everything to be the same”.

Today, the US is hundreds of times more diverse than the formative 1960s, with different consumer socio-economic, national heritage, communication, income, work and education patterns; vastly different traffic, neighborhood and psychographic consumer behavior drivers everywhere. Does everything need to be the same everywhere? A good Subway example is the sliced prepackaged apples: I'm glad they are on the menu. But it must be considered to be a never out item, and this is enforced by the franchisor inspectors. If the sliced apples don't sell in some units, figure it out and get to a lower, build to on hand level, by unit. Once the store is out, it is out. A sure sign is if the store is throwing out more than are sold. A product yield for products like this should be 90% plus.

**The business shouldn't be run for the ease of the ad agencies and franchise field consultants.** Subway now has a new ad agency—BBDO, replacing the long time incumbent. This is a sure sign of corporate unease. It is easy for ad agencies to devise discounting and big TV media heavy spending plans, and for franchise field consultants to work off one inspection checklist if everything is the same everywhere. But this is how all the restaurant chains begin to look alike, where everything is the same everywhere. Subway had years of lazy marketing—discounting—which is puzzling since it was not publicly traded and didn’t have to put up quarterly same store sales numbers. What makes it worse is that Subway measured ad spending rose in 2014 despite negative sales. Advertising levels cannot solve brand momentum problems.

**Fix the bread and the aroma marketing:** my high school memories of walking in Subway was a yeasty bread baking aroma. Today, however, that is not experienced, other mixed food and burnt odors predominate. The bread isn’t toasted fully and is a mouthful of carbs. Dirty ovens? Too many products? Changed bread formulation? It is important because it is the first bite, the first impression.

Starbucks had this same aroma problem in 2008/2009 but fixed it, and once again smells like a coffee store when arriving. They had to change the ovens. Is this something that Subway would have caught if it owned and operated some stores?
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Chain restaurant earnings and economics expert John A. Gordon at Pacific Management Consulting Group provides analysis and management solutions to those who need to know about chain restaurant performance, yielding the right information at the right time.

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