

# The body shop canada essay sample



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BUSTER**

“ You’re not the kind of franchise applicant we usually get,” said Harry Robertson, company lawyer for the Body Shop Canada, as he opened his meeting with potential franchisee Richard Paul. “ I suppose we’ll find out whether that’s an advantage or disadvantage,” replied Mr. Paul. Mr. Robertson’s comment had taken Mr. Paul by surprise, and though he was pleased with his response, the comment had produced a sinking feeling in the pit of his stomach.

Richard Paul

Mr. Paul, age 36, was about to graduate from the M. B. A. program at the University of Western Ontario. His employment background included a stint as a high-school business education teacher and seven years of retail management. He had managed independent stores and also had managed for one of Canada’s national department store chains.

He had investigated a number of job possibilities, but had received no offers and was still unclear about the direction he wished to follow. His strengths appeared to lie in the marketing and human resources area. He had little interest in joining a major retail company: “ I’ve been on that treadmill before,” he said. He felt that whatever his eventual career choice would be, he wanted to do “ something that will make some differences to me and to others.” The idea of working for himself was appealing: “ At least I’d be sweating to put money in my own pocket.”

While perusing the job advertisements in the Globe and Mail, he came across one placed by the Body Shop Canada. The notice stated that the company had a number of operating stores available for franchise, including locations

in City A and City B. Mr. Paul was aware of the company's enormous international success and was surprised to discover that franchises might be available. Furthermore, he had never known the Body Shop Canada to advertise for franchisees.

### The Body Shop

The Body Shop was the brainchild of Anita Roddick, a forward thinking Briton with a strong commitment to an ideal. The company offered conventional consumer products with a twist: it sold only naturally based products and disdained its competitors' exaggerated product claims. In fact, it did no advertising at all. The company positioned itself as a champion of social responsibility and activism. It promoted holistic health, environmental responsibility, charitable acts, Third World development, women's issues and other causes. It generated considerable publicity for itself by these means.

In the 14 years since its founding, one little store had grown into a chain of over 450 stores located in 37 countries worldwide. In Canada there were 72 shops – 56 franchised and 16 corporate owned.

The Body Shop Canada stores, averaging about 100 square meters, were in prime retail locations, either on main shopping arteries or in mall. Stores sold only proprietary products, always at “ list prices.” There were no sales and there was no discounting. The line consisted of nearly 400 items that could be purchased at every store or ordered from stores through the mail. All stores were of similar appearance; they were decorated in identical colour schemes, with displays, fixtures, and even window displays standardized from store to store across the country. Customers tended to be loyal, even

fanatical, in their support of the company. Once someone became a customer, he or she would probably not purchase a competitor's product again.

### The Initial Contact

Mr. Paul was well aware of the success record of franchise operations, and of this one in particular. In fact, he had just attended a conference where a major national retailer had spoken of the Body Shop Canada in glowing terms! However, he had never given any serious consideration to purchasing a franchise. He thought that for someone with imagination and good business sense, a franchise would be far too restrictive. However, with a “what have I got to lose?” mentality, he wrote to the address listed in the advertisement and asked for more information. Within a week he received a reply, on recycled paper.

### Franchise Information

The package that arrived in the mail contained 35 pages of information about the company and its operations. The presentation seemed almost amateur, with much of the material obviously photocopied. Nonetheless, Mr. Paul took a night off from analyzing cases to study the documents. The material consisted of:

- Company background 8 pages
- Environmental issues 15 pages
- Information on the franchise agreement 3 pages

- Financial data 6 pages
- List of current franchises 3 pages

The synopsis of the franchise agreement outlined the standard elements of a franchise agreement and included the following, additional facts:

- The Body Shop Canada would lease the premises and sublet it to the franchisee;
- The franchisee must operate the business and be in the store at least 40 hours per week;
- The franchisee must purchase the complete product line;
- The franchisee must retain effective ownership and control;
- Any sale of the franchise to a new franchisee must be approved by the franchisor;
- The franchisor may terminate the franchise if the franchisee fails to operate within the law or fails to carry on business as prescribed by the franchise agreement; and
- No royalty fees would be paid except a monthly administration fee of \$200, and a promotion and publicity fee of 2 percent of gross sales.

Cost to start a new franchise were estimated as:

Franchise fee

Fixtures

Design Fee

Opening inventory

Legal Fees

First and last month's rent

Training accommodation costs\*

Site selection

Public relations\*\*

Management aptitude test\*\*\*

Total\$15, 000

100, 000 – 120, 000

5, 000

90, 000-110, 000

5, 000

5, 000-6, 000

0-5, 000

6, 000

0-3, 000

900

\$ 226, 900-\$257, 900

\*Potential franchisees must attend a seven-week training program in Toronto at their own expense. At the end of the course they must pass an exam before being awarded a franchise.

\*\*This fee would depend on whether the Body Shop had an existing store in the market.

\*\*\*The Body Shop Canada was phasing out its management aptitude test. At the time of this case the test was used only to choose between two applicants who were otherwise tied.

Mr. Paul estimated that he could come up with about \$125, 000 himself. He would have to finance the inventory and part of the fixtures through a bank

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loan. Given the excellent track record of the Body Shop Canada and his experience and qualification, Mr. Paul believed he would have no trouble borrowing the necessary capital from a bank. Using the company's sales and operating projections, he created pro forma financial statements for the first two years. Exhibit 1 shows the statements. 2 Mr. Paul thought that the numbers looked promising and that it was worth devoting time, even at the expense of preparing cases, to find out more about the Body Shop Canada.

### Mr. Paul's Plan

If buying a franchise for the Body Shop Canada made sense, then why not try to buy two? Mr. Paul's education and personality combined to make him ambitious. He had examined the list of franchisees and realized that 13 of them had multiple stores. One couple owned five!

Mr. Paul reasoned that there would be economies of scale for a multi-store operation because some of the start-up costs and operating expenses would be higher than for a single store operation. Would he have enough capital? Would he be able to secure competent management to operate on a broader scale? Both problems seemed resolved after discussions with two close friends.

His two friends, both women, were tremendously enthusiastic about the possibility of becoming involved with the Body Shop Canada. Both said they would quit their current jobs at a moment's notice and would want to purchase a minority equity position, probably 10 to 15 percent of the store they managed. Mr. Paul was certain the two women would be ideal managers and business partners. Their equity holdings would provide him

with additional capital and them with a strong incentive to work hard. If worse came to worst, he would be in a strong position to buy them out in the future.

Mr. Paul thought that the best organizational structure would be to create a holding company with him as a sole owner, and for the company to enter into separate partnership agreements with each of the women. Each partnership would hold one store. He revised his pro forma statements (see Exhibit 2).

Mr. Paul was thrilled with the projected results. He believed that he had used a conservative set of assumptions and that even under these conditions he could expect to eliminate all debt within three years. Even if there were zero sales growth after the second year he could expect after-tax earnings in the area of \$150, 000. That night he completed the formal application for a franchise and began to dream....

### The Option of Buying Existing Franchises

In the course of his investigations, Mr. Paul had been able to discover more about the two existing locations available for franchise. The store located in City A was already a franchise operation. The current owner had been experiencing personal problems and was keen to sell the business. The store was small, only 40 square meters, but was favorably located in the best mall in the city. Many people described the location as the only good retail location in the city. A friend who lived in City A expressed some small concern that the store had not always been well managed, sometimes appearing to be poorly staffed and inadequately stocked.



The City B store was corporately owned and was being offered as part of a plan by the parent company to divest itself of all corporate stores (except for some in Vancouver and Toronto). It was one of three outlets in City B and was located in one of the newest malls in an area surrounded by up-scale housing and extensive development. A major university was less than five km away and plans were under way to expand the mall by some 70 stores within two years. The Body Shop Canada had recently been moved to a better location within the mall and almost doubled in size to about 80 square meters.

Mr. Paul felt certain that sales in these stores would be well above the levels projected for start-up operations, but had no way to determine by how much. The locations really interested him. He owned a house in City B and he would be happy to stay. One of his two potential partners also lived there, and the other had recently moved to City A, near the United States border. The Body Shop's Canadian operation had the right to expand into the virgin territory of several United States Border States, including the one nearest to City A. Growth prospects seemed unlimited! It appeared to be a perfect fit. The only question was how much of a premium the on-going operations would command.

About 10 days after completing the franchise application, Mr. Paul received a phone call from the Body Shop Canada inviting him to go to Toronto for a meeting with Harry Robertson. Mr. Paul felt he had already passed a major hurdle because the franchise application had required extensive personal and financial information. If the company wanted to meet him, he must be an acceptable candidate. On a beautiful spring day he pulled into the parking

lot of the Body Shop Canada head office, full of excitement at the prospect of what was about to unfold.

### The Meeting

Mr. Robertson described the typical Body Shop Canada franchisee: “ female 35 to 45, married with school age/adolescent children, limited formal education, and crazy about the Body Shop. Anyway, none of our franchisees have M. B. A. degrees!” Mr. Paul realized he had a fight on his hands. “ It seems to me you have a view of what M. B. A. s are like, that they’re all fanatical, hard-nosed, money-hungry tyrants,” said Mr. Paul. “ I don’t think that’s fair, any more than it would be fair to say that all lawyers are alike.”

This comment seemed to break some of the ice. But if the relationship between the two men had begun to thaw, the discussion that ensued and the information that surfaced over the next hour did nothing to cheer Mr. Paul. His plan had obviously been a pipe dream.

Mr. Robertson was adamant on a number of points. The Body Shop Canada would not grant multiple franchises to a new franchisee; the company first wanted franchisees to demonstrate their potential to handle more than one outlet.

The franchisee must personally work in the store full-time. Although many Body Shop Canada franchises were held be partnerships, the company was cautious; it was particularly wary of non-operating financial partners. If the company did acquiesce, it would want absolute discretion over the content of the agreement. “ We want operators, not investors.”

Mr. Paul pressed for information about the City A and City B stores. The news on these fronts was no better. Goodwill charges would be about \$125, 000 for City A and \$250, 000 for City B! Expected sales for the two stores for 1990 were \$600, 000 and \$750, 000, respectively. Apparently, volume at the City B had increased 66 percent since its relocation. City A sales were up 33 percent over the previous year.

The meeting ended on an amicable note with Mr. Paul promising to let Mr. Robertson know within two weeks whether he was interested in proceeding. If the answer were “ yes,” Mr. Robertson would consider whether to place Mr. Paul on a short-list of candidates. The short-list would be subjected to a 12-hour battery of interviews and then placed in a store for a week. After the trial, both parties would decide whether to commence training. The Body Shop Canada would not award the franchise until after training had been completed. However, even at this stage, the franchisor could still reject the potential franchisee and leave him or her without recourse.

### The Decision

When Mr. Paul returned home from Toronto his immediate instinct was to rush to his computer to create new pro forma statements, but before doing so he thought it would be helpful to note down his options and his concerns.

Mr. Paul knew he had a tough problem on his hands. He decided to produce pro forma statements along the lines of his first projections. He had fairly accurate percentage cost data that Mr. Robertson had provided for the existing stores. He wanted to compare performance for each of the existing

operations to a start-up, assuming each was operated as a single entity by a sole proprietor. Exhibit 3 contains the statements.

Mr. Paul had some important questions to consider beyond the financial analysis. Could he see himself inside an 80-square-metre store for the next 10 years? Could Mr. Robertson be persuaded to compromise? After all, how many people could fit his ideal profile of someone with the right balance of spiritual devotion to the Body Shop Canada's philosophy, business acumen, and access to the required capital of around \$250, 000? Also, what was he able to afford? Was there anything Mr. Paul had missed in his analysis? Somehow this was going to be a lot more difficult than doing a case study. This was his life!