

Case studies

KLMN Junk Removal: A Case for Veterans in Franchising

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This case study focuses on an organization called KLMN and how it transitioned to franchising. KLMN was started by a military veteran that specializes in junk removal. One of the biggest challenges for new franchisors is identifying franchisees who match their model. Another challenge is creating a distinct brand. What made KLMN unique from other franchise models was that individuals must have served in the military to become a franchisee to KLMN. Using this technique eased the process of identifying new franchisees, created a distinct brand for the franchise model and offered a unique selling proposition to their customers.

Introduction

The franchise marketplace has become very competitive over the last two decades. Franchisors must have a unique selling proposition to attract new franchisees and customers. This case study describes a company called “KLMN Franchise Inc.” and how it utilized a unique approach to identifying new franchisees while creating a unique selling proposition for their brand. The learning outcomes are the following:

- Apply the concept of market segmentation to recruit new franchisees
- Identify the traits of successful franchisees
- Examine an organization’s method of transitioning to a franchise model
- Identify new revenue streams and opportunities
- Identify a unique selling proposition for a brand

This case study will provide a brief description of franchising, address problems and issues on franchising, define critical terms frequently used in franchising, discuss KLMN’s transition into franchising, describe issues on branding and segmentation, and provide several learning activities and discussions on the case study. Several pseudonyms were used to protect the identity of any franchisees or individuals mentioned in this case study.

Franchising

Franchising is a popular business concept in the United States and other countries like Canada, the United Kingdom, and Australia. According to the Small Business Administration (2020), there were 31.7 million small businesses in the United States in 2017. Approximately one in twenty companies or five percent of small businesses with employees in the United States were franchises.

From a business perspective, franchising allows a company to enter new markets domestically and internationally

much faster and provides a less expensive option compared to opening corporate units on its own. From an entrepreneurial perspective, franchising offers an individual a faster route to success because it comes with an identified brand and proven system, so entrepreneurs do not have to recreate the wheel. Franchising is unique in terms of entrepreneurship because it includes two different types of entrepreneurs. The first type of entrepreneur is the franchisor, the creator of the business model and brand. Next is the franchisee, the individual who follows the system created by the franchisor. The characteristics and traits are very different between these two types of entrepreneurs. The franchisor is typically known as having a higher degree of entrepreneurship because they created the system. Creativity is not often associated with a necessary characteristic of a franchisee. Some of the desired traits often associated with successful franchise business owners are individuals who know how to follow a system, are willing to take a risk, and are open to training. Nevertheless, both the franchisor and franchisee are dependent on each other to be successful.

Problem

The challenge for many franchisors is to secure new franchisees that match its model (McDermott & Boyd, 2017). Franchisors partnering with a franchisee that is not a good match could lead to disastrous effects like lawsuits and hurting the brand. According to Mathews (2019), organizations wishing to pursue franchising as a means of growth and distribution need to secure a specific level of units to remain competitive in the franchise marketplace. Moreover, Frandata (as cited in Mathews, 2019) estimated in 2017 that 83% of franchise brands had less than 100 operating territories or units. Mathews suggests a franchisor achieves royalty-self-sufficiency between 40 and 100 occupied territories and units. The challenge for many franchisors is competing with many other franchise models to recruit new franchisees.

Similarly, an entrepreneur seeking to purchase a franchise must identify a model that matches their soft skills, interest, and personality. Buying a franchise can be a significant investment and is often associated with a long-term contract. Selecting a franchise can be a challenge with several thousand different franchise systems in over 80 various industries. Aspiring entrepreneurs seeking to buy a franchise have numerous choices, and it could be a challenge to select the best fit. Many entrepreneurs seeking to buy a franchise can research opportunities on the Internet, utilize the services of a franchise broker or consultant, and attend discovery days and trade shows. Franchisors must have a unique selling proposition to attract new franchisees and customers.

A key component of the franchise model is the franchise disclosure document (FDD). The FDD separates franchising from other types of business opportunities. The FDD provides prospective franchisees the information they need to evaluate the benefits and risks of such an investment. According to the Federal Trade Commission (2021), the franchise disclosure document requires franchisors to provide all potential franchisees with a document containing 23 specific information items about the offered franchise, its officers, and other franchisees.

These elements include the following:

- Description of the franchisor
- The business experience of the leaders in the organization franchising
- Court cases like any pending lawsuits against the franchisor
- Bankruptcy
- Initial payments like a franchise fee
- Additional payments like royalties and advertising
- Probable initial investment to the individual purchasing the franchise
- Restrictions on sources of products and services like approval of alternative suppliers
- Obligations of the franchise
- Financing
- Franchisor's support to franchisees in areas like advertising and training.
- Territory
- Trademarks
- Patents, copyrights, and proprietary information
- Requirement to participate in the actual operation of the franchise business.
- Restrictions on what the franchisee may sell
- Renewal, termination, transfer, and dispute resolution
- Public figures representing the brand
- Financial performance representations
- The number of outlets and franchisee information
- Financial statements
- Contracts
- Receipts (pg. iv-vi).

Key Terms

The following are several key terms used frequently in this case study:

- Branding - A seller can differentiate their good or services from their competitors. According to Kotler, Keller, and Chernev (2022), customers can quickly identify the brand via symbols, signs, terms, and typically a combination of these elements (pg. 549).
- Franchise Disclosure Document (FDD) - According to the Federal Trade Commission (2021), this document allows prospective franchisees to make an informed decision on buying a franchise because it provides the ability to compare one franchise model to another.
- Franchisee - The individual that follows the system as created by the franchisor.
- Franchisor - Creator of the model and brand.
- Military - Any individual that served in the United States Air Force, Navy, Marines, Army, or National Guard.
- System - A method or process that produces similar results.
- Unique selling proposition - Accentuates how one brand is different and of better value than similar products.

KLMN Franchise, Inc.

KLMN franchise is an organization established in the Northeastern part of the United States in 2010. The company was started by military veteran, Jay Sparrow, and specializes in junk removal. According to the U.S. Bureau of Labor Statistics (2021), the total payroll generated by the waste management and junk removal sectors in the United States is in the area of \$10 billion annually. Junk removal and hauling is certainly not a new concept. Historically, the junk removal industry has been fragmented. A popular show called "Hoarders" was launched in 2009 and created more awareness of this industry. One prominent franchise in the junk removal industry was frequently featured as part of the show. Junk removal and hauling services have become a more popular franchise model over the last decade because they are relatively simple to duplicate, making them attractive for franchising. Approximately ten franchise models are competing in this industry. The primary service offered between these franchises is very similar. Companies remove unwanted items for their clients. These unwanted items could include appliances, furniture, and waste from the yard or home. In most instances, anything that can be used gets recycled. Other items collected are often donated to second-hand services like Goodwill or the Salvation Army. This process is a critical part of the business model because there is a high cost associated with disposing of junk in a landfill. Because this model is relationship-driven, several franchisors in this industry have added additional services that tie in with their brand. Some of these services include moving, carpet cleaning, and painting. This type of strategy is often referred to in marketing as new product development, which is selling a new good or service to the current market.

Transition to Franchising

KLMN started as a two-person operation. Sparrow immediately hired more employees because he had more business than he could handle. Sparrow employed individuals that served in the military because he believed they shared the same values and experience. As the KLMN model became systematized and built a brand in his area, Sparrow realized that he could franchise this model. KLMN began franchising in 2011. At the time, several other popular brands were franchising their model in the junk removal industry. What made KLMN unique from other franchise models was that individuals must have served in the military to become a franchisee to KLMN. This notion provided KLMN with excellent public relations and allowed the company to differentiate itself from other franchisors. Many new franchisors spend years attempting to identify a profile of their best franchisees. Nevertheless, Sparrow believed that ex-military would fit the KLMN model well based on his military experience. These traits Sparrow had come to admire in military veterans included trust, integrity, and respect.

Veterans in Franchising

Interestingly, some studies have focused on a relationship between ex-military and franchisees (Crecente et al., 2020; Hope et al., 2011; McDermott, 2010; McDermott et al., 2015; McDermott & Jackson, 2020). One of the earliest studies by McDermott (2010) focused on commonalities and traits of successful franchisees and ex-military. The commonalities identified in this research include openness to training, discipline, risk-taking, appreciation for national affiliation or a brand, ability to follow a system, loyalty to the organization, ability to follow a routine, and appreciation and desire for support. All of these identified traits are critical to being successful in both military and franchise ownership. According to Crecente et al. (2020),

One of the most definitive quantitative studies of this link between franchising and military education was presented in 2015 by McDermott, Boyd, and Weaver. This study reveals that military veterans' level of overall job satisfaction in owning and operating a franchise was significantly higher than those franchise business owners who had not served in the military. (p. 2)

Some of the benefits of employees having a high level of job satisfaction include lower turnover and absenteeism, higher levels of efficiency and motivation, and increased customer loyalty (McDermott & Butler, 2018). However, this study did not answer important questions like how military experience influences satisfaction in owning and operating a franchise. Therefore, McDermott and Jackson (2020) researched a follow-on, qualitative study to comprehend more about military veterans' opinions on the rationale to purchase a franchise after serving in the military and how the military experience impacts satisfaction in owning and operating a franchise. The results of this follow-on study disclosed;

“Veterans had a strong negative feeling towards bureaucracy; however, they did appreciate the positive aspects of systems within the franchise paradigm. In addition, the veterans valued their prior learning related to military experience and leadership and remarked it as a key strength towards successful business ownership and franchise leadership. One of the key facets of business ownership and leadership that veterans appreciated more than other notions was control, which connects to the traditional aspects of control within the business profession.”

Another advantage of working strictly with ex-military is that they retire at a much younger age than individuals working in corporate America. Retiring at an earlier age provides an opportunity for military veterans to have a second career. Some ex-military retire with a pension, which can be seen as an advantage of steady income.

Segmentation

Identifying new and qualified franchisees is similar to the process of market segmentation. Kotler, Keller, and Chernev (2022) describe segmentation as “the division of a group into subsets that share a similar set of needs and profile characteristics” (pg. 552). Some popular techniques for segmenting a market include demographics, geography, psychographics, and behavioral factors. One popular tool some franchise organizations use to identify if entrepreneurs are a proper fit for their franchise model is the DISC model. According to Wali et al. (2021), DISC is a personality test that measures four elements: dominance, influence, steadiness, and conscientiousness. DISC helps identify which style an individual tends to lean toward the most. Wali describes each personality as the following: a dominant personality style is a person who enjoys taking control and is straightforward in their communication style. An influential personality style is a person who is open to other individuals and is friendly. Steadiness individuals play a supportive role, and conscientious individuals are detailed oriented and classified as critical thinkers. Segmenting the entrepreneurial market via military service made it much easier for KLMN to reach prospective franchisees and create a niche in the franchise arena.

Branding

One key element an entrepreneur receives when buying a franchise is a brand. According to Kotler, Keller, and Chernov (2022), successful branding is achieved when sellers clearly differentiate their goods or services from their competitors. Customers can quickly identify the brand via symbols, signs, terms and typically combine these elements (pg. 549). Kotler and Keller (2016) suggest that a critical factor to successful branding is brand equity, “the perceptions, preferences, and behavior related to all aspects of the market of a brand. If there are no perceived differences from one brand to another, the brand name product is essentially a commodity, and competition will probably be based on price (pg. 303).” While many new franchises might have a robust system, they might not have national brand recog-

dition. Some brands are considered more regional, so many franchisors typically grow in the area where they started the organization. This notion means that new franchisees purchasing an unrecognized franchise have to build the brand in their area.

Implications

This case study addresses several issues on franchising. The first issue pertains to competitive advantage. Kotler, Keller, and Chernev (2022), describe a competitive advantage as a company's ability to perform in one or more ways that competitors cannot or will not match (pg. 150). While other franchisors frequently work with veterans, KLMN will exclusively work with ex-military. KLMN could have an advantage if the notion that military veterans make better franchisees. According to Vetfran (2021), an organization that educates veterans on franchising, veterans make up only about 7% of the population, yet veterans account for 14% of all franchisees in America. One question of consideration is whether new franchisors in different industries will use the same or similar model as KLMN. One company that is not a franchise but has utilized a comparable model to KLMN is Black Rifle Coffee. Many of Black Rifle's employees are veterans, and a percentage of their profits is given to support veterans.

In terms of segmentation, KLMN quickly identified prospective entrepreneurs because they were aware of their target audience of prospective franchisees. While research does show military veterans can make better franchisees, another question of consideration is if this idea that a franchisee has served in the military is essential to customers choosing one service over another competitor. Another organization that used a similar model in terms of segmentation to identify prospective franchisees was called the Professional Athlete Franchise Initiative. The mission of this organization was to educate professional athletes about franchising. In many instances, playing a professional sport requires individuals to be disciplined, open to training, and be part of a team. A popular description of franchising is being in business for yourself, but not by yourself.

Conclusion

As of the 2020 Franchise Disclosure Document, over 140 KLMN Junk Removal franchises are spread in the United States, with locations available in approximately 25 states. Having 140 units suggests KLMN has achieved royalty-self-sufficiency. However, having a presence in 25 states means they have not quite achieved national brand recognition. Only one franchise in this industry has strong brand recognition throughout the whole country. Lastly, franchisors must have a unique selling proposition to attract new franchisees and customers to clients.

Discussions

Discussion One

Several franchisors in this junk removal industry have added additional services that tie in with their brand. Some

of these services include moving, carpet cleaning, and painting. Please provide at least three examples of why a franchisor in the junk removal industry should and should not add additional services to their model. In addition to the examples mentioned in this case study, what other services or revenue streams could be applied to the junk removal industry?

Discussion Two

Sparrow believed early on that ex-military would make a good fit for the KLMN model based on his experience of serving in the military. These traits Sparrow had come to admire in military veterans included trust, integrity, and respect. Identify several other types of occupations that could be a good fit for franchising. Based on your findings, would you consider exclusively targeting this occupation similar to the KLMN model?

Discussion Three

Many of the franchisors in the junk removal industry do not have a national and international brand presence. What advice would you provide to franchisors looking to grow into new markets?

Discussion Four

Listen to the following podcast with four popular franchises in the junk removal industry. <https://www.blogtalkradio.com/franchise-interviews/2021/09/09/franchising-the-junk-removal-industry-primetime-edition-of-franchise-interviews>

After listening to the podcast, determine the strengths and weaknesses of each franchise model. As an aspiring entrepreneur, which brand would you select or not select as a franchise opportunity. Defend your choices.

Discussion Five

You have just been promoted to Franchise Development for the KLMN franchise. Over the next week, you will be meeting with several individuals who have served in the military and have expressed interest in purchasing a KLMN franchise. Your task is to create a PowerPoint presentation with audio as a sales tool to present this opportunity. Describe three benefits of the junk hauling and removal industry and three benefits of purchasing a KLMN franchise over the other brands in this industry.

Discussion Six

Using research, identify other methods of determining if an individual matches a franchisor's system?

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Author Biography

Dr. Martin J. McDermott is a full-time marketing professor and course leader at Purdue University Global. He has

been published in several scholarly journals and has presented at numerous conferences on franchising. For the last 15 years, Dr. McDermott has hosted a podcast on franchising and entrepreneurship.

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