

How Franchisees Can Grow by Cooperating With Competitors

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Fleet Feet Charleston shows how franchise owners can use “coopetition” — working with suppliers, rivals, franchisors and employees — to build a stronger local business ecosystem.

Last in a series on franchising

In 2017, Shalane Flanagan became the first American woman in 40 years to win the New York City Marathon. Soon after, writers began describing the “Shalane Flanagan Effect”: the unusual pattern that creating a collaborative, supportive environment where competitors work together can benefit everyone involved. In elite marathoning, training partners are also rivals. Flanagan did not get better by withholding help from her competitors, but rather by investing in the people she would eventually race.

That lesson travels surprisingly well to franchising. For franchisees, the difficulty is not how to outperform every rival, but knowing when collaboration with rivals, suppliers, the franchisor, and employees can create a more durable advantage than trying to win every transaction alone.

Management scholars call this “coopetition”: the simultaneous pursuit of cooperation and competition (Brandenburger & Nalebuff, 1996). Subsequent research has shown that firms can compete in some activities while cooperating in others, and that this dual logic is especially common when rivals share suppliers, customers, or industry-level interests (Bengtsson & Kock, 2000). The franchisees who survive and grow over many years are not simply the toughest negotiators or the most independent operators. They are often the ones who learn how to develop strong community ties,

support a local ecosystem and cooperate with parties whose interests only partly align with their own.

We spoke with the Fleet Feet franchise owners and employees in Charleston, South Carolina, to learn how they built a local ecosystem that helped them grow despite intense competition from big-box retailers, national brand websites, and numerous local rivals. Their customers can buy the same apparel and shoes from online marketplaces, big-box stores, and local competitors. This is not unique to franchises selling shoes and athletic apparel. Many other similar businesses navigate four overlapping relationships at once: a vertical relationship with the franchisor, supplier relationships with the brands they stock, horizontal relationships with direct competitors, and an internal relationship with employees who can leave at any time. Fleet Feet Charleston has navigated all four for more than a decade and continues to grow fast. What we found is that the local ecosystem that they developed and continue to nurture is what makes coopetition pay off.

Here are four practical lessons from our findings.

Lesson 1: Treat royalties as a capability fee, not a tax.

A franchisee's first relationship is with the franchisor, and it is structurally asymmetrical from the start. The franchisor sets the terms, controls the brand, and holds the contract, which can make these arrangements profoundly unequal. Royalty and marketing fees come due regardless of local performance, and the franchisee has little leverage to renegotiate them after signing. That asymmetry is what makes royalties feel like a tax.

The Charleston operators recognized this tension but chose to frame royalties as a means of acquiring



capabilities they could not easily build on their own. Rebuilding HR, marketing, vendor leverage, and technology in-house would cost far more than the royalty itself. Franchisors and franchisees who share knowledge and treat the relationship as a strategic asset rather than a pure contractual obligation tend to build more durable systems (Combs, Ketchen, Shook, & Short, 2011; Gillis, Combs, & Ketchen, 2014). A franchisee who treats the royalty as a tax keeps corporate at arm's length. A franchisee who treats it as a capability fee asks, "What am I already paying for, and how do I use it fully?"

In practice, that means calling the corporate HR team before a staffing problem becomes a crisis, asking the corporate technology staff how new tools can improve store-level conversion rates, and using national marketing assets while localizing them.

The practical move: Audit the capabilities you are already paying for and assign a team member to ensure the business makes full use of franchisor resources.

Lesson 2: Collaborate with competing brands by bringing them into your local network.

The brands that a specialty retailer sells are both partners and competitors. They provide the products, training, terms, and marketing support that make the store viable. However, they also sell directly to the customer base. This is the classic horizontal competition dynamic (Bengtsson & Kock, 2000), in which the same firm is simultaneously a supplier, a co-marketer, and a rival for the same end customer. The same dynamic plays out well beyond specialty running stores. Third-party sellers on Amazon rely on the platform's reach even as Amazon's own private-label products compete for the same buyer. Airlines and hotels depend on Expedia and Booking.com for visibility, even as those platforms compete with them on their websites and in direct customer relationships.

Working with a brand that competes through its own e-commerce can feel like aiding a rival in the short run. But refusing to engage leaves the franchisee with no leverage and no way to convert local assets into vendor support brands that can otherwise be directed elsewhere. At Fleet Feet Charleston, the team took an untraditional approach and chose to treat brands as

potential collaborators rather than pure suppliers or pure competitors. They understood that the franchisee holds local intangible assets and know-how the brand lacks and can't easily create from afar: local trust, access to local events, local knowledge, and embedded customer relationships. They turned the relationship from a one-way supply chain into a partnership of complementary capabilities.

In practice, that translated into practical strategic actions that benefited both the franchisee and the brands.

- First, use brand programs that depend on local relationships and customer knowledge. In Fleet Feet Charleston's case, a supplier-backed program let outfitters fit customers with a complex surgical history in two different shoe sizes for the price of one.
- Second, turn brand reps into co-marketers at in-store events, where they test new products with high-frequency buyers whose word-of-mouth outpaces paid ads.
- Third, add local products beyond the renowned brands, including small or regional labels that would never reach the local market without the local franchisee.
- Fourth, bring local knowledge into vendor meetings -- including local events, seasonal demand, local needs, and buying patterns -- to negotiate later delivery windows, better terms, and co-op support.
- Fifth, turn local presence into something brands actively want a piece of, giving brands more reasons to partner with you than with another franchisee. This can take the form of co-branded community products, donation pipelines, and relationships with local businesses and nonprofits.

The practical move: Trade local access and credibility for vendor support, co-marketing, and better terms.

Lesson 3: Support local competitors to grow the ecosystem.

The most prominent competitive threat to any specialty retailer is the nearby store that offers identical products, serves the same clientele, and draws from the same local customer base. The natural inclination is to

compete fiercely for every transaction. However, the more significant competition lies not between the franchisee and the local competitor, but rather between the local specialty category and the tendency to default to online marketplaces, brand websites, and large-box retailers. The local expertise and customer relationships that initially attracted customers to a specialty store are now competing against the price and convenience available elsewhere.

Collaborating to protect and strengthen the local category pays off more than competing for every transaction. Retail literature has long observed this dynamic: Retailers selling similar products often benefit from being near one another because the cluster itself becomes a destination, drawing customers who would not otherwise come (Teller & Reutterer, 2008). Because sending a customer to a competing local shop may appear costly in the short term due to the loss of an immediate sale, the long-term benefits are not immediately apparent. However, allowing customers to leave the local ecosystem without making a purchase and then defaulting to online or other channels accelerates the erosion that threatens every specialty store. At Fleet Feet Charleston, when a customer enters the store seeking an item that is not available, staff are encouraged to contact a local competitor, verify its inventory, and direct the customer to that establishment. Although the sale may leave the business temporarily, Fleet Feet gains a more enduring advantage: trust within the local network, a stronger category, and a healthier specialty cluster. This principle applies to any specialty business, whether it is a coffee shop, a fitness studio, or a neighborhood bookstore: A referral that initially appears to be lost revenue is a small investment in the local ecosystem the business relies on.

The practical move: Refer out when doing so strengthens the local category and ecosystem, even at the cost of a single transaction.

Lesson 4: Incentivize your best employees so their local relationships stay with the business.

In a small specialty business, the most skilled employees eventually exhaust their career growth opportunities within the store. They have mastered the product, managed the floor, trained other staff members, and have absorbed a substantial amount of the operational playbook. However, the role above store

manager is often absent; the compensation is flat; and they may consider transitioning to larger organizations. When these employees leave for career advancement, they typically take with them not only labor but also valuable local knowledge and relationships. Replacing institutional knowledge every two or three years and witnessing the rebuilding of local relationships from scratch is extremely costly.

To address this challenge, Fleet Feet Charleston owners proactively established an internal equity structure with explicit terms. This structure includes an initial equity grant, incremental percentage points earned over time, a cap on total ownership, and a right of first refusal upon the founders' eventual departure. An internal equity ladder motivates talented employees to think like owners before they *become* owners, and encourages them to continue investing in the local relationships that take years to cultivate. This approach goes beyond retention and serves as a form of succession planning, safeguarding both institutional knowledge and local social capital from departing employees.

Equity is not a viable or suitable option in every franchise system. Certain franchisors impose restrictions on ownership structures; some operators are unwilling to dilute their control; and some cultures are not conducive to multi-owner partnerships. However, the fundamental principle extends beyond equity. Any enduring, formal arrangement that associates a portion of the profits with the individuals who establish and operate the franchise can help safeguard that institutional knowledge and those local relationships.

The practical move: Protect institutional know-how by properly incentivizing key people

Franchises should be viewed as local networks of relationships.

A franchise does not survive on its own transactions alone. It survives because a network of relationships around it, most of them rooted in a specific place, stays healthy. The network encompasses the franchisor that supplies the brand and the systems; the vendors that bring new products to test in front of local consumers; the competing local shops that keep specialty retail alive in customers' minds; and the employees who carry the operating knowledge and the local relationships. Each of these relationships sometimes asks the owner to do something that may seem inefficient in the moment --

send a customer to a competitor, hand equity to an employee, or spend a Saturday co-hosting an event with a brand rep instead of selling. None of those moves produces a clean line on the P&L for that quarter.

But each one strengthens the local ecosystem on which the business depends. The competitor referral keeps Charleston customers in the habit of shopping local. The equity grant keeps institutional and relational knowledge inside the company. The brand-rep event brings in runners who would not have come for a sale. The franchisor relationship unlocks tools and pricing that a single owner could never negotiate on their own, but the franchisee supplies the local intelligence that helps those tools do their work.

In the case of Fleet Feet, a national brand can match prices, but it cannot replicate a decade of relationships with Charleston physical therapists, race directors, running clubs, and even rival shop owners. That is the real source of advantage for a community-based franchisee. The discipline is knowing when cooperation strengthens the local network more than chasing a short-term competitive win. After all, building a durable franchise ecosystem is a marathon, not a sprint.

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