5 Things You Need To Franchise Your Business

A simple guide to help you understand whether franchising is the best way to grow your business

The Franchising Centre

What do the following have in common?

They all franchise in the UK or internationally

The Case for Franchising

Most businesses, no matter how big or small, are continually looking for ways to improve and grow – and if they're not they ought to be.

But how should they look to grow? Well simply increasing turnover isn't necessarily the answer unless it also increases the profitability of the business and its ROI (Return on Investment). And, for some, increasing turnover may be difficult if they have already saturated the market for their product or services in their location. So perhaps they should be looking for another location in which to trade, perhaps even set up a chain of outlets, perhaps they already have a chain of outlets but want more.

Well, any business that does, or could operate as a branch network should, at least, consider franchising.

Franchising has become established around the world as the low-cost way to rapidly expand your business. A franchise strategy is widely used by every size and type of business and it works in most business sectors. It can be used within your own country to speed domestic expansion, or to spearhead an international growth drive into other countries. But what are the specific benefits of franchising your business that tempt so many companies to employ this strategy?

Some of the often-quoted benefits of franchising include:

More Rapid Growth

Franchising allows for a fast rate of business growth due to a combination of factors. Obviously, the introduction of capital by your franchisees is one factor, but there are others, including the fact that you are outsourcing the other resources required to expand a business to your franchisees. How much management time and resources would it take to open ten new trading units of your business? Now contrast that with the minimal resources required to support ten franchisees to do the same. You begin to see how easy it is to scale through franchising.

Capital

You will have heard the old adage that the best way to grow your business is using someone else's money? Well, franchising does just that. Your franchisees introduce capital into your business to open new trading units. This immediately lifts one of the main constraints to business growth – available capital.

Increasing the Value of Your Business

Increasing the value of your business isn't just about increasing the bottom line. You may be in an emerging sector and need to effect a land grab to become a player in the market, or need to demonstrate a growth story to would-be investors, or even just need to grow brand presence in your market – franchising is an ideal way to achieve all of these business-value enhancing goals.

Motivated Partners

This is an easy one to get your head around – particularly if you have ever managed disinterested employees! If the person managing one of your operating units has invested their own money into it, they are motivated to perform well.

De-Risking Your Business

This factor isn't often initially discussed as a reason to franchise your business, but it is a huge benefit of franchising, so you should be aware of it; having a franchised network rather than a wholly company owned network, significantly reduces the risk to your business of fluctuations in trade e.g. such as that caused by a recession. Ongoing franchise fees are typically based on franchisee turnover and NOT profit. So as a franchisor, you are not exposed if franchisees make losses, but only exposed to the extent of their reduction in revenues. Whilst it isn't what anybody wants, a franchisor is still able to be profitable during difficult trading periods.

Marketing Firepower

Not only can you charge your network franchise fees, but it is accepted practice to require your franchisees to contribute to your marketing. This central marketing fund can really boost your marketing firepower and help increase business.

Local Knowledge and Contacts

One reason independent businesses often cite for being able to outmanoeuvre and compete against larger businesses is their knowledge and understanding of the local market and their local contacts and connections. As a franchise, you and your franchisees can actually have the best of both worlds – their local knowledge and presence combined with your national brand.

Group Buying Strength

Again, not difficult to understand – having a network of franchisees allows you to negotiate group buying discounts on all manner of supplies. In fact, franchisors are often able to agree additional discounts on their own and their franchisees' purchases even before they have any franchisees – the promise of 'captive customers' in the future may be enough for a supplier to 'invest' in their own future growth by way of discounting prices to the franchisor.

Could Your Business Be Franchised?

However big you want it to become – biggest in your region, biggest in the country, or biggest in the world – franchising may be able to get you there. It depends largely on your vision, and only you can create that. Remember – everyone started with only one outlet.

Much of the project work undertaken in our business starts with someone contacting our office saying, 'I've got this business. Is it franchise-able and, if so, how do I go about it?' Sometimes the question is, 'I've got this great idea for a business, can I franchise it?' The easier question to answer is the second one because the simple answer is 'No'. You can only franchise a successful business format, not an idea.

Turn your idea into a successful business, at your own expense and risk, then we can see about franchising it with you. That's not to say that you can't develop your idea into a business with the long-term view of growing it as a franchise, and it's never too early to start considering franchising as an option for eventually growing your business.

What Makes a Good Franchise?

Let's assume the business in question has now been going for a few years. There are five things we look for to help us decide whether it may make a good franchise. We call this Five-Star Franchising. It doesn't matter if not all five attributes are yet in place – that can be remedied – but they will need to be in place before the franchise opportunity is launched.

Here are the five things we initially look for.

1

Proven Format

This means that the business must have a track record of operating profitably – and operating profitably in the format in which it is intended to be franchised. If the business currently operates from retail stores of about 100 square metres in a secondary location, you cannot plan to franchise 500-square-metre stores in shopping malls. Similarly, if you only have one shop and it is bang in the middle of London's Oxford Street, don't imagine you can open hundreds of smaller stores on the High Street, either in Oxford or anywhere else.

If you want to franchise a different format, test it yourself to prove it works, then franchise it. The same applies when you are established as a franchisor and you want to introduce significant changes to your system.

Profitability is important, not least because you cannot franchise a business in order to get it out of trouble – franchising will not save a failing business. You cannot clear your overdraft by recruiting ten franchisees, each of whom stumps up a franchise fee equal to one tenth of your current debt, and you cannot get rid of loss-making stores by handing them over to franchisees. Underperforming stores can sometimes be transformed by turning the managers into franchisees, but the underlying business format must be proven to be successful elsewhere.

The format will need to be documented in detail, in an Operations Manual, and as many as possible of the Intellectual Property (IP) constituents of the system must be protected by legal means, for example trademarks, store designs, bespoke software, unique colours, and the manual itself. The franchisor needs to own the rights to these items as otherwise he cannot license the franchisee to use them and cannot stop anyone copying them to compete with his franchisees. A good consultant will take you through an IP audit, and introduce you to a specialist lawyer.

2

Easily Duplicated

The easier it is to find sites for additional outlets, the easier it will be to develop a franchised network. Most small businesses are relatively easy to duplicate – all the franchisee has to find is an appropriate office, industrial unit, retail store, van or whatever the business currently works from. In many cases this can even be the franchisee's home, which certainly keeps the overheads down and means they can start trading very quickly.

Many franchisees start by working from home, then move into business premises once they get established. Difficulties arise where the optimum premises are either hard to find or hard to acquire. Prime retail locations are notoriously difficult to come across, as they are in great demand and agents tend to have waiting lists of big-name prospects. They are equally difficult to acquire as landlords naturally prefer to go with an existing big business as a tenant rather than a start-up franchisee. Sometimes this can be solved by the franchisor taking the head lease and subletting to the franchisee, but the pros and cons of this need serious consideration. The more outlets a business has when it starts to consider franchising the better, because it has already proved that the concept can be duplicated. Having said that, of course, every business started out with only one outlet.

3

Easily Learned

The easier it is for someone to learn how to operate, or manage, the business, the easier it will be to find appropriate franchisees – and the quicker they will get into action, the quicker they will start recouping their investment, and the quicker they will start paying franchise fees. Most small businesses, and just about all successful franchises, are fairly easily learned – that's the beauty of them. Indeed, a franchisor will continue to spend years making it easier because that's how both parties increase efficiency and profitability.

Easy doesn't mean anybody can do it, however; it means the appropriate person can. Sometimes the work that is actually done in the franchisee's business is very skilled, and may even require formal professional qualifications, such as being a vet, an optician, a dentist or some other professional activity.

Obviously, the franchisor cannot take just anyone and teach them these skills in a short enough time-frame – but he or she could find a franchisee who has the marketing and management skills to run a multidisciplinary health practice, leaving everyone to do the bits they are best at.

People may say, *'If the business is easily duplicated and easily learned, why does anyone need a franchisor? They could just set up for themselves.'* They are missing the point. What a franchisor is offering is a system that is easily duplicated and easily learned. The system will have taken many years, many mistakes, and a lot of resources to refine. That experience is what the franchisee is buying into, and getting benefits from, from day one. If restaurants were so easy to set up by inexperienced people, it wouldn't be the case that 50 per cent of them go out of business in their first year of trading.

4

Profitable for Both Parties

The franchising business model has to work for both parties – the franchisee has to be happy and making money; the franchisor has to be happy and making money. When we have the initial discussion with someone thinking about franchising their business, there is no way either of us can know whether this particular criterion can be met. That's why the first stage of any project is the Franchise Development Plan, but it is essential to embed into everyone's mind at an early stage the principle that franchising has to work for both parties.

The trick is to get the balance of what 'happy' and 'making money' means for everyone concerned. Many franchisees are happier than when they were employed, because they are perceived as being independent and they consider themselves to have a better lifestyle.

They may be earning less money, and working longer hours, but they are happy. Others get into franchising to build their fortune and then go on to bigger and better things. The franchisor must know, and be honest about, which of these types of franchisee he is likely to be able to satisfy, and indeed which of them he wants in his network.

Similarly, one franchisor may be happy with the ego trip of having 100 or more branches operating under his name, even if he makes no more money than he did before. Another may only be happy if he is earning £1 million or more a year.

However good the potential franchisee, or the franchisor, and however well they get on with each other, sometimes it is not possible to match their income requirements and investment capabilities. In such cases they must be honest with each other and move on to find a better match.

5

Franchising Culture

Franchised networks need to develop a culture of mutual trust and support, where everyone is working together towards a common goal. That is why understanding the franchisor–franchisee relationship is so important from an early stage.

The best way to explain the franchising culture is to consider what happens when an area manager of a large corporate organisation visits one of his branches. The perceived wisdom is that if he tells the manager to jump, the manager will ask, 'How high?' Compare that to a franchisor's field support executive visiting one of his franchised outlets. All he can do is ask the franchisee to jump, whereupon the franchisee will demand, 'Why?'

It's a fact of life that large corporate organisations find it very difficult to franchise all, or even parts of, their businesses successfully. This is partly because they cannot adapt to the above scenario, and partly because they will not accept that franchising is a long-term investment and commitment. Typically, the franchise project is headed by someone who doesn't really 'own' it, they are just doing this as one of many projects on the way to their next promotion, and they don't have the time to learn the nuances of franchising. Existing big businesses typically need more professional franchising advice than do owner-managed businesses because the latter already must know how to 'get' people to do things rather than 'tell' them.

So, Does this Look and Sound like Your Business?

If you feel that you 'tick some or all of the boxes' then perhaps now is the time to consider having a more in-depth chat with a specialist franchise consultant. We, at The Franchising Centre, have been helping businesses to expand nationally and internationally for over twenty years. Our experience is wide and varied and there is probably not a business sector that we haven't worked with. All of our consultants originally learned their craft working at a senior level in a franchisor's business and all have achieved or are working towards the British Franchise Association's Qualified Franchise Professional (QFP) award.