Franchising….Is It For You?

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You are an executive who is being displaced or who is dissatisfied with the way you are being treated by your company. Recently you have been thinking about putting your resume on the street, but more often than not you have found yourself thinking about going into business for yourself.

Whenever you think about going into business for yourself, you think about the horror stories and statistics you read in USA Today and the Wall Street Journal about the failure rate of independent businesses. Those statistics dampen your desire to own your own business.

Yet every week in those same newspapers you see ads by companies offering franchise opportunities. If you want to be self employed and are intrigued by the idea of operating a franchise and want to find out more about selecting the right one for you, read on.

What Is Franchising?
Franchising is one of three business strategies a company may use in capturing market share. The others are company owned units or a combination of company owned and franchised units.

Franchising is a business strategy for getting and keeping customers. It is a marketing system for creating an image in the minds of current and future customers about how the company's products and services can help them. It is a method for distributing products and services that satisfy customer needs.

Franchising is a network of interdependent business relationships that allows a number of people to share:

- A philosophy of doing business
- A brand identification
- A successful method of doing business
- A proven marketing and distribution system
- Systems, processes, programs and procedures that make the Strategic-Partner franchisees more successful

In short, franchising is a strategic alliance between groups of people who have specific relationships and responsibilities with a common goal to dominate markets, i.e., to get and keep more customers than their competitors.

There are many misconceptions about franchising, but probably the most widely held is that you as a franchisee are “buying a franchise.” In reality you are investing your assets in a system to utilize the business philosophy, business principles, brand name, operating system and ongoing performance improvement processes. You and everyone in the system are licensed to use the brand name and operating system.

The business relationship is a joint commitment by all franchisees to get and keep customers more and more VERY satisfied and loyal, frequent user, promoter customers. Legally you are bound to get and keep them using the proscribed and prescribed philosophy, principles, marketing and operating systems of the franchisor.

To be successful in franchising you must understand the business and legal ramifications of your relationship with the franchisor and all the franchisees. Your focus must be on working with other franchisees and company managers to market the brand, and fully use the operating system to get and keep customers.

Throughout this article we will discuss in detail some of the benefits of conducting business as part of a larger group.

Other franchisees and company operated units are not your competition. The opposite is true. They and you share the task of establishing the brand as the dominant brand in all markets entered and reinforcing the customers’ familiarity with and trust in the brand. So in this respect you are working as a team with others in the system. Other franchisees share with you the responsibility for quality, consistency, convenience, and other factors that define your franchise and insures repeat business for everyone. Increasing the value of the brand name is a shared responsibility of the franchisor and franchisee.

An “ownership mentality” destroys the reason franchised and company-operated units are successful. Think about it. If you think you “bought” a franchise, you become an “owner” and begin to think and act like an owner. You will want to change the system because of your needs, you will wonder what you are paying the royalty for, and you will begin thinking of other franchisees as your competitors. For these and many other reasons you do not want to think of yourself as an “independent owner.”

As a franchisee you own the assets of your company, which you have chosen to invest in someone else’s brand and operating system and ongoing support. You own the assets of your company, but you are licensed to operate someone else's business system.

Finally, your desire to become a franchisee must be grounded in your belief that you can be more successful using someone else's brand and operating according to their systems and methods, than you could if you opened up your own independent business and competed against them. You want to look for a franchisor who is building a system of interdependent franchisees who are committed to getting and keeping customers, to growing faster than the market, to growing faster than the competitors, and to do all of that with high margins.

When you discover a franchisor who understands this relationship, you have a franchisor worth your consideration.

"The Strength of Franchising"

Franchising is the most popular system for growing a business in the United States today. According to every government survey, franchising has experienced explosive growth since the mid-70s and is expected to be the leading method of doing business in the new century.

In the United States, there are over 5,000 franchise systems. These systems have in excess of 750,000 franchise units, which represent 3.2% of the total businesses. This 3.2% of all businesses controls over 35% of all retail and service revenue in the U.S. economy.

Franchise's advantages over going into business for yourself include; being a successful business philosophy and successful principles, opening quicker, experiencing success sooner, developing a customer base faster, having less risk and being more profitable.

Your success as a franchisee is based on the proven success of the franchisor to operate company units and upon the success of existing franchisees. [It should be able to show that the business can be successful in various markets and in different conditions.]

A company franchises because it wants to quickly and in great numbers replicate its successful company operations without significantly increasing its debt. Because it has been successful at teaching its own employees to operate the business, the company believes it can repeat the same success by teaching others to do it.

In franchising, the operating system becomes identified with the brand or trade name that you license as a franchisee. Each franchise system uses precise philosophies, business principles, and methods to service and satisfy the customer. By documenting these practices, the franchisor institutionalizes the buying experience.

Because customers don't like surprises this consistency in operations, unit to unit, builds customer loyalty to the brand.

Franchising is successful because we Americans are people of habit and are brand-driven when we purchase goods and services. We trust brands that we see everywhere, every day. We tend to be loyal to a product or service delivered to us the same way all the time.

"Investing in a Franchise"
In reality you are taking your assets, which you own, and investing them in someone else's philosophy, business principles, brand and operating system. You will always own your assets.

You will always own your corporation [i.e. your business]. But you will "do business as" (dba) a licensee of the franchisor. Many hotels reinforce this distinction with a plaque proximately displayed at the check-in counter, which says: "This hotel is owned by [insert name of the person or company that owns the hotel] and operates under a license agreement with [Marriott Corporation of Bethesda Maryland]"

"Before You Select A Franchise. . ."

Step 1: Evaluate Yourself
Your job is to make an informed business decision about whether a franchisor's business opportunity meets your needs and whether you can provide what the franchisor wants and needs in a franchisee.

You need to ask yourself basic questions:

1. Where am I today?
2. Where did I think I would be today?
3. Where do I want to be tomorrow?
4. Can I get there doing what I am doing today?
5. Can I get there by becoming a franchisee of [insert company]?
6. What do you want from life at this time?
7. What are your goals for improving your lifestyle, income, wealth and equity?
8. What are your wants, needs and desires?
9. What are you looking for in a business?

10. Have you decided to leave what you are now doing–not just the job, but the profession?

11. Have you made a decision to become a part of another organization? Remember that in franchising you joined someone else's business. You are going to be using their marketing system to generate customers and their operating system to satisfy them.

12. Do you have the kind of personality that can accept running the business according to someone else's plan without feeling that it compromises your individuality?

13. Do you have an interest in doing this kind of work for the length of the agreement?

14. Have you ever worked for one company for five or ten years?

15. Do you have related skills, knowledge, abilities, and work-related experiences similar to the ones required for running the franchise you are considering?

16. Do you have the financial resources to open and operate the business successfully?

17. Can the business support your lifestyle needs?

18. Which of the franchises you are reviewing meets your financial needs short and long term?

Step 2: Evaluate the Franchise Opportunity
Evaluate the legal documents from a business perspective. Determine whether the franchisor has territory policies that might make franchisees less competitive in a highly competitive environment. Many prospective franchisees erroneously believe that having a large territory is best for them. It could, in fact, be the worst thing for them. For example, if you have too few franchisees in a market and competitors have more units than you have, it could leave you at a disadvantage in terms of dominating the market for your product or service in your area.

Look for a franchisor who can communicate a strategy not just for market presence but for dominating markets; look for a franchisor interested in establishing a competitive edge and increasing market share. If a franchisor cannot talk about these issues, it is entirely possible the franchisor is using franchising as a way to generate franchise fees and royalty revenue rather than to establish a competitive position in the marketplace.

Evaluate the marketing/advertising fee. Many franchisors and prospective franchisees erroneously believe that a low marketing fee is a good thing. In fact, the marketing fee should be related to the amount of money each franchisee needs to contribute to support an advertising campaign that will generate enough new and repeat business for each of them. A 1% advertising fee may look good now, but when you need 5% from everyone to be competitive, it might not be possible to convince all franchisees to participate.

Evaluate the effectiveness of the Franchise Advisory Council. Does the franchisor incorporate the franchisees' input in the decisions that affect the future direction of the system? Does the franchisor involve franchisees' input in decisions?

Be sure you can answer the question "How will I make money in this business?" There should be a very simple answer to this question. It will not violate earnings claims restrictions for the franchisor to answer it because you are not asking "How much money will I make?" You simply want to know how money is made in the business. Spend as much time as possible speaking to existing franchisees. Ask them if they would do it again. How long did it take them to recoup their investment? How much money are they making? Does the operating system work? Are they provided with good marketing programs? Do the franchisees get along well with each other and with the franchisor? What are the major problems with the business? Do they use all of the operating system? Is the franchisor's ongoing support adequate and helpful? The answers to these questions will help you make your decision.

Step 3: Evaluate the Franchisor's Business Plan

The franchisor should have a business plan for the system that covers at least the length of the agreement you are being asked to commit to. Ask for the plan for the market where you are going to locate the operation. Ask for their analysis of the competition. Ask how many units are being planned for your area and why that many. Why not more, why not less? Ask how much is going to be spent on marketing in your area.

Ask to look at the operations manuals or at least to see an outline of them. This is important because the operations manuals are your guideline to a successful operation. You need to feel comfortable that they are complete and clear and meet your abilities, needs, and goals.

Ask to receive a full explanation of the initial and subsequent training programs. Ask how people are trained. Is it classroom or hands-on practice? Are there case studies and discussions or is it straight lecture?

Ask for a full explanation of the pre-opening assistance offered by the franchisor. Understand any help franchisors give for site selection and lease negotiation. Be clear about what ongoing support the franchisor provides to the franchisees.

In Summary . . .

- Franchising is a business strategy centered around a strategic alliance between groups of people who share specific relationships and responsibilities in addition to being licensed to use a franchisor's brand name and proprietary way of doing business.

- Other franchisees are not your competitors; they work in tandem with you to establish and reinforce brand-name dominance in your area.

- Keep in mind that you own the assets of your company but are licensed to operate someone else's business.

- Franchising is successful because we Americans are people of habit and are brand-driven.

Author Profile
Bob Gappa is president of Management 2000, Tucson, Arizona, a firm specializing in assisting companies in the use of franchising as a growth strategy. A respected leader in the field of franchise consulting, Bob's 30 plus years of experience includes design and implementation of systems in franchise development and operations, compensation planning, human resource management, strategic planning, and marketing strategies. Bob has an in-depth understanding of the process of connecting franchisors with franchisees.

Management 2000 has been responsible for innovative thinking in getting people to understand franchising as a business strategy.