Stop “Selling” Franchises and Make More Money

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The History
In 1984 Management 2000 held its first seminar titled, “How To Close More Franchise Sales. The seminar was an instant success. Those who attended learned how to “sell” more franchises. Then two things happened at the same time. I studied the UFOC [now the FDD] and License Agreement and I questioned why franchisor-franchisee relations were so strained in so many franchise systems. It didn’t take too long to discover the answer. It all began and ended with the “selling” of franchises.

Whoever started talking about “selling” franchises has proven the adage that, if you say something long enough and often enough people will believe its true, even if it is not. This is what happened with “selling” franchises. Well intentioned, but misinformed people, who wanted to expand their systems, began to think analogously that a franchise was like a product and could be sold. While intelligent and savvy lawyers wrote that the franchise was to be granted [in most agreements it appears right after the recitals] and that the franchisee didn’t own anything [in various parts of the FDD], they listened to their clients talk about “selling” franchises. No one got the point until the negative effects of “selling” or, more to the point, of creating an owner’s mentality [as in, “I own my franchise”] began to show its effects. In the early days everyone failed to understand what creating an owner’s mentality would do to the relationship. Everyone failed to get the point, or failed to see its disastrous implications for franchising.

Once it was decided that a franchise could be sold, perfectly logical conclusions followed:

- ❑ Franchisees were called owners.
- ❑ The copy machine became the factory, producing franchises to be sold.
- ❑ Since we now had a product, the franchise, we could now have an industry. The franchise industry was born. To date there is no S.I.C. code [Standard Industrial Classification] for franchising. To date neither Forbes nor Fortune recognizes franchising as an industry in their industrial listings and rankings, even though they list companies who franchise.
- ❑ Since the franchisee had to own something [since it was sold to them] they decided they owned the brand and the operating system.
- ❑ It followed then that the royalty fee was payment for support. This led to the often heard song entitled, “What are you doing for me lately?” The response is: “Never Enough.”
- ❑ Since franchisees owned their franchise they concluded that the franchisor’s operating system was optional and they could use whatever parts of it were convenient to them. The operating system, since it was optional, did not need to

be known very well. Franchisees believed they could do whatever they wanted with the system if it meant making more money. The key was to not get caught.

- Since the franchisor was the factory, they became their vendor.
- In "selling" the franchise, language developed that served the ends and aspirations of the potential buyer not of the licensing body. This included words and phrases like, "be your own boss," "be in business by yourself, but not by yourself," "be in business for yourself," "be an independent owner-operator," "buy a franchise."
- The clear distinction between a true independent business person with their own brand and operating system and a franchisee became blurred, and for most disappeared.
- To make the "purchase" attractive, franchisors gave exclusive territories limiting their [the franchisor's] ability to compete and achieve their goals.
- Other franchises sold in ***their area*** were seen as competitors. As a group, the only thing franchisees had in common was dislike of the franchisor.
- Parity became a realistic goal, and so more and more franchisees perceived control under an "I own it" mentality got translated into a "let's restructure the agreement along the lines of parity and shared control." Franchising has become truly threatened under these erroneous philosophical premises.
- Because franchisees believed what was told them, they believed:
    - They did "own" the franchise,
    - Were independent,
    - Were in business for themselves,
    - Could follow the parts of the system they wanted,
    - Were in business by themselves,
    - Did "own" the market in which they were located,
    - Were in competition with other franchisees,
    - Did pay the salary of your field people,
    - Could tell the field consultant what to do when they came to visit,
    - Did own the money called a royalty,
    - Could begrudge you the payment of the royalty because "you were not doing enough to earn it."
- The franchisors' role, in this relationship, was to make them successful and to make sure they made lots of money. Their role was to send some of their money to the franchisor. The gratitude of early days quickly waned proving the adage, "The fastest drying liquid known to man are the tears of gratitude."
- These "owners" got together and formed "Owners Councils" to negotiate *their* agendas with their vendor.
- Franchisors lost control of their systems. Now we have legislative bodies and national franchisee associations trying to institutionalize bad and incorrect philosophy.

What happens when you License something?

When you think of things licensed (doctors, lawyers, drivers, pilots, sports, fisherman, nurses, accountants, etc.) you quickly get the following points: [Think of the similarities between a state driver's license and your franchise license agreement as you go through the list]

- The market belongs to the licensor and the licensee is only given access to it for very explicit purposes as outlined by the licensor.
- The trademark and all other associated items are owned by the licensor.
- Fees are involved.
- The license is never owned by the one licensed.
- The license is for a specified time.
- Training is involved.
- There is an operating system of some kind to follow.
- The licensing body is concerned with making sure you comply so its goals, not yours, are met and fulfilled.
- What the licensee's reasons are for being licensed is of very little concern to the licensing body.
- You cannot sell your license. It can be transferred but only to someone the licensing body approves.
- You cannot transfer the license on your own.
- You cannot will the license to anyone upon your death.
- The license can be renewed as long as you have been in compliance.
- The license can be revoked and or suspended if you decide to operate outside the prescribed operating system. You have a right to appeal this decision, and the appeal may result in a period of time during which you demonstrate you can and will follow the prescribed operating system.
- The licensing body remains at all times in control of the one licensed.
- There is no implied fairness in the license agreement.
- Parity is not expected in the relationship between the franchisor and its licensee, the franchisee is clearly not an equal in decision making. In fact after deciding to be licensed most of their decisions are made for them by the licensing body.
- Licenses are not negotiated.

Franchise Schizophrenia: What happens when you "sell a franchise?"
The presumptions and assumptions of ownership and of licensing cancel each other out. What you can do with one you cannot do with the other. Confusing them only leads to conflict that is not able to be resolved. In the end lawyers representing the franchisor defend a license agreement and not a contract while lawyers who defend the franchisee are trying to look at it in some convoluted way as a relationship of parity.

From "Selling" Franchises to Using a System to Grant/Award Franchises
First of all, granting franchises gets you back in control of your system. When you sell somebody something, they are in control. When you license something, you are always in control. You have to convince people you are "selling" to that the product is right for them. They put up barriers. You have to explain and justify. You are subject to their process. When you are licensing, you are in total control. They must qualify. They must meet your standards. They have to go through your process. They must follow

your total system. They have very few choices. If they do not follow your system during the granting process, you will know that they will not make a good franchisee. If they do not follow your system after they become a franchisee, they can lose their license.

The closest analogy to granting franchises is the headhunting/recruiting profession. When you act like a recruiter, granting franchises, you are in control of the process, very like giving (think granting) someone a job. They must meet your criteria and be able to follow your system, if they do not or cannot they will lose their job. The most excellent recruiters are successful for two reasons: they're highly skilled and they use a system. As we will see, the most excellent "grantors" are successful for the same two reasons: they are highly skilled and they follow a system.

Management 2000 has combined these very powerful dynamics, highly skilled people with a recruiter's mentality and a systems approach, with outstanding results.

The Management 2000 System
First of all the facts: The national average for "selling" franchises is .75% to 1.25% signed agreements per 100 inquiries. Switching to granting and our Management 2000 systems approach results in 2% to 9% signed agreements per 100 inquiries.

When you consider the money invested is the same, the decision should be obvious. You accomplish your goals more quickly, royalties increase, you penetrate markets more quickly, market share increases more rapidly, equity is built in the brand faster, revenues increase, you have a better candidate and you are back in control.

Here are the elements of the Management 2000 systems approach. Each system is customized to fit the needs, but the basics are the same.

1. ***You are totally in control*.** This means you will need to have a business plan for the company and for the specific areas you have targeted for franchising. You need this so you can say to the candidate: "We have decided this market's initial penetration is 20 units. Our goals are to be number one or two in number of units and in market share. In the future if we need more than 20 units to accomplish these goals we will add more units either using our initial franchisees or we will add new franchisees. These will be decisions that will depend partly on you."

2. ***You will need a system*.** This includes:
    - ❑ A strategic marketing plan that identifies priority markets according to specific criteria.
    - ❑ Is your strategy single or multi-unit, passive or active; is your opportunity an operational or marketing business, will Master and Area Development be used?
    - ❑ Establishment of the candidate's qualifications and profile. Qualifications include such things as net worth, liquidity, education, work history, age,

etc. (hard measurable items) while profile has to do business philosophy, values, vision, and other core competencies you have decided are critical to successfully operating one of your units.

- ❑ Strategies and tactics for generating interest in your opportunity. There are many new ways to do this and this article does not lend itself to their explanation.
- ❑ Collateral support pieces like scripts, videos, printed materials, letters, presentations, etc.

3. ***The FDD and License Agreement*.** These two documents must reflect the philosophy of granting the franchise. They need to clearly state the relationship. Franchise Development Agents must be taught to use these documents as key marketing documents and important influences on the candidate's ability to make an informed business decision to become your franchisee.

4. ***Becoming Your Strategic-Partner and Making An Informed Business Decision: Having the correct philosophy and language*.** Instead of "selling" we grant. Instead of sales people we have system recruiters. Instead of asking, "Are you ready to buy?" we ask, "Has our process helped you make an informed business decision to become one of our franchisees?" Instead of, "Where do you want to go?" we state what markets we have available and what our specific goals and objectives are for that market.

   Since the true understanding of franchising is *one of many channels of distribution or strategies a business can use to get and keep customers,* we can move beyond legalese and call our candidates by a name that represents our function together rather than how we relate legally. Functionally these people are our partners in a strategy called franchising. They are our Strategic-Partners. When the term is hyphenated it becomes a noun. If your lawyer has an issue with this he/she may be more comfortable with Strategic-Associate.

   A correct understanding of this relationship enables us to get rid of the notion that the franchisee (Strategic-Partner) is our customer. They are not our customer because they have a legal relationship to us and because we don't sell them anything. We must have respect for them, the same as we do for customers, but we cannot put the demands on the customers we can and must put on them.

5. ***Understanding the Decision-making Process*.** People make decisions in a three-step process. First, comes emotion, followed by rational examination, followed by emotion. The process needs to follow this dynamic. First contacts must deal with the emotional excitement about the concept, the market, the product/service, the people, the customers, the mission and vision. Second, comes the structured examination of the details of the business including the business plan, talking to franchisees, financing, studying the market, competitive analysis,

reviewing real estate, studying the pre-opening process, reviewing the legal documents, looking at the operations manuals. Third, and finally, comes the emotion again. This includes visiting and working in a unit, meeting field people, visiting the corporate office for a Discovery Day, thinking about the grand opening, meeting other candidates in the market.

6. ***Understanding the Process and Roles of the People.*** Part of our Management 2000 system involves separating the qualification process into two and having two people handle the different parts. The two parts are divided into pre-qualification and qualification. This is part of the key to the improved results our system gets. The candidate is presented with this process and becomes very comfortable with it. In the initial discussions the Qualification Specialist explains their role and that of the Recruiter: *To use a structured process and system to help the company decide if this candidate is the most qualified to help it (the company) accomplish its goals and objectives in this specific market and to help the candidate determine if the company is the best opportunity for them.* The candidate is asked to proceed only if they are genuinely and sincerely interested in the opportunity and to tell us if they are no longer interested. The candidate is told we will inform them immediately if they are not qualified. These approaches are requirements in the Management 2000 system. If only one person handles the inquiries the potential rejection rate of 92% to 98% affects the quality and, therefore, the results of the first initial contacts. The Qualification Specialist, depending on their abilities, can qualify the candidates on the following:
   - Financial
   - Background
   - Readiness to make a decision
   - Availability of a market for them
   - If their time frame fits ours
   - Basic understanding of franchising and if franchising fits their personality
   - Initial discussion of the concept using the Information Packet
   - Completeness and timeliness of the Request For Consideration (assumes a more detailed Application will be completed later in the process)
   - Understanding of your company's mission, core values, vision and specific plan for the market(s) in which they are interested

7. ***The Market Development Specialist's role.*** Once the candidates have been preliminarily qualified the Market Development Specialist [Recruiter] knows they are dealing with qualified candidates who are genuinely and sincerely interested in making an informed business decision to become one of your Strategic-Partners. The Market Development Specialist continues the process of qualifying the candidate by processing the following:
   - The market plans for the specific market where the candidate is interested in being licensed to operate one of your units.
   - Their understanding of franchising and how it fits their personality and of your mission, core values and vision.

- ❑ Their understanding of the business and how it operates.
- ❑ Their understanding of how the business makes money.
- ❑ Their understanding of your philosophy of Strategic-Partner, licensing vs. owning and other franchisee/Strategic-Partners as team members not as competitors.
- ❑ The legal relationship (as found in the FDD and Agreement) and in particular the operating requirements as non-negotiable.
- ❑ That the initial fee buys them nothing.
- ❑ That the royalty is not paid by them to us "*from the money they make on the customer"* but rather that the royalty is our money [collectively speaking], and the royalty is due us and is not ever to be considered as having belonged to them for even one instant. It is simply, not their money.
- ❑ Help them get excited about our overall vision and in particular the one for this market.
- ❑ Determine if they have a team or "individual owner operator" mentality.
- ❑ Use a profiling instrument to assess their core competencies.
- ❑ Have them visit with other members of the team: operations, marketing, field consultants, construction, real estate, pre-opening, site selection, finance, etc.
- ❑ Have them work in a unit for a week [or, at least one to two days] if possible.
- ❑ Have your mutual qualification, decision-making processes culminate in an emotion- driven Discovery Day where the candidate becomes your Strategic-Partner and signs the agreement.

8. ***Use of technology in the Qualification Process*.** We have found the following to be places where technology can help increase the ratio between initial inquiry and signed agreement:
   - Keeping track of candidates and where they are in the process. Sales lead tracking software such as ACT can be adapted for this purpose.
   - Establishing separate ratios on individual Qualification Specialists and Market Development Specialists can help you determine who needs training and development and in what areas within the various parts of the process. This can be determined by tracking the ratios at the various decision points.
   - Following up with candidates who did and did not become your Strategic-Partner. Determining why and what the strengths and weaknesses of your system and your people are. And finding out if there was something in your system or in the way they were handled that was of particular influence to join or not to join.
   - Using profiling instruments for determining the fit of a candidate with the profile of your most successful operators.
   - Using systems like Claritas' PRIZM to determine where to pinpoint units based on your customer profiles and where they are clustering in your targeted markets. This shows candidates you are using thought to plan the penetration and development of a market and didn't just "come up with the number of units by pulling it out of thin air."

- Using CD-Rom in the presentation of the intellectual and emotional side of the presentation. The use of this technology can ensure greater consistency in presentations, allow more quality interaction and more presentations per week as they are not as draining to the Market Development Specialist and allows them to listen to the candidate better.

9. ***Who makes a great Market Development Specialist?*** The answer is two-fold. First it is the person who understands that what gets great results is a qualified, well-trained, person who, second, follows a system. Being well trained and following systems is the key to multi-unit retailing and to franchising (replicating the same experience for each customer). Just as it is true that your most successful franchisees/Strategic-Partners are those who are well trained and follow your operating system, it also is true that your most successful recruiters are those who are qualified, well trained and follow your system.

10. ***Earnings Claims*.** Of course anyone who has any financial savvy has always been able to determine an earnings claim by looking at the financial statements in the FDD. Today earnings claims are almost expected. Not to do them for a well-established system raises too many questions. Our recommendation is to do them. But people need to decide when they are given out and how they are used. They are becoming a substitute for research and homework. The Recruiter must probe to understand if the candidate understands what they mean relative to the operating system.

Overview of a Typical Qualification Process

Initial Inquiry (Qualification Specialist)

- ❑ Explain the role of the Qualification Specialist.
- ❑ Gather information from the candidate.
- ❑ Explain the evaluation process.
- ❑ Brief background of the concept.
- ❑ Discuss the development strategy and the mission, vision and values.
- ❑ Ask evaluation questions.
- ❑ Review Franchise Packet and Application.
- ❑ Get commitment from the candidate to return the Application.
- ❑ Send the Franchise Packet.

Application Received (Qualification Specialist)

- ❑ Verify/validate Application.
- ❑ Contact the candidate to advise of Application approval.
- ❑ Discuss the next step—phone meeting with the Recruiter.
- ❑ Review FDD and Decision Making Checklist.
- ❑ Schedule phone meeting and send FDD and Decision Making Checklist.

Phone Meeting (Recruiter)

- ❑ Establish trust and rapport, common agenda, explain role.
- ❑ Review the evaluation process.
- ❑ Explain FDD items and Decision Making Checklist.
- ❑ Summarize results of the phone meeting and schedule a face-to-face meeting.
- ❑ Assign homework—calling Strategic-Partners, developing questions for the meeting.

Face-to-Face Meeting (Recruiter)

- ❑ Set agenda—candidate's and company's.
- ❑ Conduct interview using presentation materials.
- ❑ Complete the profile instrument.
- ❑ Discuss the next steps—visit existing locations, work in a unit, complete financing, and complete the business plan.
- ❑ Summarize the results of the meeting, document actions completed on the Decision Making Checklist and schedule a meeting in an existing unit.

Meeting with Operations at Existing Unit (Recruiter, Strategic-Partner, Operations)

- ❑ Candidate works in unit.
- ❑ Operations answers remaining questions and evaluates the candidate.
- ❑ Candidate discusses their business plan with Strategic-Partners.

Approval Committee

- ❑ Recruiter submits the candidate packet to the Manager of Franchise Development.
- ❑ Manager reviews and submits the candidate packet to the Approval Committee.
- ❑ Approval Committee reviews the candidate packet and makes a decision.
- ❑ Approval letter is sent to the candidate with invitation to Discovery Day.

Discovery Day

- ❑ Tour of corporate office.
- ❑ Introduction to company management.
- ❑ Celebration—signing of the Agreement and payment of fees.
- ❑ Operations reviews the pre-opening time line and gets candidate commitments.

Conclusion

Now that you know the secret to increasing your "franchise sales' we at Management 2000 wish you the best of luck and hope if you need assistance you will attend one of our seminars on this topic or will call for assistance in setting up and monitoring your system. 1-800-847-5763