

WHY FRANCHISE YOUR BUSINESS?

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Expanding your business through franchising is neither as hard or as easy as most people think. Myths and misunderstandings about franchising are plentiful and potentially very, very dangerous. It is not a "license to print money", rather it is one of several distribution methods that businesses can employ to grow and prosper. It is not rocket science, but requires good planning, patience and careful execution.

Franchising is a distribution method which requires, in the final analysis, less capital, because the franchisees finance their own outlets. However, new franchisors will need to invest substantially in the early years to develop an effective franchise structure and the critical mass necessary to make it profitable. Often, a franchisor will not realize a profit until as many as ten franchise outlets are up and running.

A franchisor can leverage a much greater volume of business on a much smaller head office than in other business models. While this is true after the franchise system has grown to a sufficient size, at the beginning, the head office costs will be much higher in relation to the over volume of business in the system than with other distribution methods. A new franchisor must plan well and provide enough capital and resources to get through these early stages to realize on this leveraging benefit.

A business can grow more quickly through franchising than through almost any other distribution method. Again, while true, it is another benefit that comes later in the growth cycle of a franchise system. Growing too rapidly and not being able to service the franchises that are sold, is a recipe for disaster. Often, franchisors miss the fact that they must also take a break from rapid growth to consolidate, take stock of the situation and plan to accelerate growth even more rapidly thereafter.

In business, it is generally recognized that an owner will be more attentive than a manager. This is a central point which makes franchising so attractive. A franchisor can rest assured that the person operating his store will be "attending to business" much as he would. However, this requires much more than luck in selecting the right franchisees. Learning about franchisee recruitment from others is helpful, but the franchisor must ultimately become the expert about who is best suited to be a franchisee in the particular system. The right franchisees can be nirvana for the franchisor; the wrong franchisees can be nightmares.

And, there is strength in numbers. The successful franchisor can command incredible deals with suppliers of all sorts. The sometimes difficult to obtain mall locations will be in easy reach of a business that can assure a landlord of profitable and predictable tenants in all of its developments. Advertising budgets can be generous, and there are often greater resources for research and development. In many systems, franchisees provide the greatest contribution to improving the business.

Today there is a wide variety of businesses that employ franchising as the distribution method of choice. However, all too often, the decision to franchise is made based upon the fact that the business is franchisable, without any consideration being given to the following questions:

1. What will the impact be on my existing business?
2. How will it change my activities and responsibilities?
3. What financing do I require?
4. Where will I obtain the various skills necessary in planning, implementing and administering a franchise program?
5. What alternatives exist to expansion through franchising and are these alternatives more attractive to me?

The early stages of your franchise system will require a considerable amount of your valuable time. Even if you decide to work with franchise professionals, you will be required to be part of the planning process because, after all, you are the original success story everyone is attempting to clone. You then must come to terms with the fact that you will not always be able to tend to the original business and others will have to take your place. If you cannot find and train the right people, you could seriously reduce your earnings and cash flow. As mentioned earlier, most franchise systems do not become profitable for the franchisor until a number of units, sometimes as many as ten or more, are up and running smoothly. Consequently, you may have to rely on the original business for some time to support you and provide the working capital necessary for the franchise expansion. The flagship business may also be jeopardized by the fact that your franchisees are using your trademarks, style of doing business and appearance. Disgruntled customers will direct their wrath at the system as a whole and you may not have a business to go back to, if the franchise expansion fails.



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