

What is a Franchise?"

By Lori Karpman

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When buying a Franchise, you buy a lot more than the bricks and mortar and the inventory that stocks the shelves. In fact, what you're actually buying are the things that you can't see and often the things that you can't see are more important than the things you can.

The principle of franchising and its success is based upon 2 principals: Consistency and Goodwill. By consistency, I mean that the customer can expect to have the same experience in every outlet. A Big Mac is a Big Mac wherever you may be. This essential element leads to the second intangible element, goodwill. Goodwill refers to the fact that once the sign goes up above the door, customers will automatically be drawn to your store just by virtue of fact that they've recognized the name and that they know what to expect from the customer experience. It means that the franchisor, by insisting that all the franchisees follow the rules and regulations of the system, has achieved consistency. So, when looking to buy a franchise, an essential step is to visit several of the franchise outlets and evaluate for yourself whether or not consistency exists. Pretend that you are a mystery shopper, look around the stores. Do they look the same? Is the staff trained in the same way? Did you walk out with basically the same experience from all them all? Keep in mind that there will be variations among different outlets to reflect the personalities of the individual franchisees and the trade market area.

Another important element that is often overlooked by prospective franchisees in the pre-purchase process is an investigation of the franchisor's management team and growth plans. It's easy to get caught up in investigating the actual business opportunity but don't forget to pay attention to the people behind the opportunity as well. Given that you are investing your money not only in your particular outlet but also in the system as a whole, you want to know about the foundation upon which the system is built. The provinces of Ontario and Alberta require prospective franchisees to receive a disclosure document as the first step in the franchise purchase process. However, in Quebec, no such documentation is required. In the disclosure document, relevant information regarding the personal and professional backgrounds of all senior members of the management team is provided. As well, various financial and legal information regarding the management team and the franchisor is provided. Given that providing this information is not standard procedure in Quebec, it is very important that you be an advocate for yourself and request it. Remember that this management team is the team that will lead your franchise and the system to future growth. Therefore, you want to know about the financial security of the company and it's ability to finance future growth. You also want to assess how committed they are to future growth and what their development plans and strategies are. One telling question is whether the corporate stores contribute to the royalty and advertising funds. Another important element is whether there are any outstanding actions against the Company by franchisees or suppliers.

One of the biggest indicators of the success of the system is how often outlets have been sold, how many franchisees typically renew or sell their outlets at the end of the term and how many multi-unit operators there are. This will give you an idea as to whether the present franchisees in the system are

committed to growth and whether they foresee a future for the system as a whole. It is important to speak to other franchisees to determine what kind of support they have received from the franchisor during the term of their franchise agreement. Other franchisees are a valuable source of information. The franchisor will furnish you with a list of franchisees to contact. However, it is important that you also contact franchisees that are not on that list, keeping in mind the source of the information. Disgruntled franchisees are not likely to give raving reviews!

Last but not least, the greatest intangible that must be evaluated is quality of life. When evaluating a franchise opportunity, have a good look at the time commitment that will be required on your part and how this fits in the quality of life that you seek. For example, if you are not a morning person, do not buy a franchise that would require you to be in at 4:00AM. However this would be an ideal situation for example, for a couple with school aged children so that one parent may be home in the morning and another after school.

All in all, buying a franchise requires an investigation not only of the business itself, but also of the people behind the business. It involves a detailed investigation of the things you can't see because these things impact directly upon the success of the actual day to day operations of the business. As stated earlier, the key to successful franchising and the key to the successful franchise systems that exist today are consistency and the goodwill of the name. A solid franchisor has a committed management team and a committed network of franchisees dedicated to following the rules and regulations of the system. This in turn will generate the necessary goodwill to drive customers to your door when *your* sign goes up!

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