

Franchising: Do you make the leap?"

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e in the franchising field are of a special ilk. We are in operating business like restaurants, dry cleaners, and video stores but operate inside a specialty designed business model called "franchising". Think of it this way, franchising is to business like orthopedics is to medicine, it is a specialty of the business world. Deciding to franchise is primarily a financing decision that companies make to fund growth. The options available to fund this growth are conventional bank financing or private investment. Both of these options have serious long-term financial implications. Growth is slow and high priced. Hence, the major attraction of franchising. The speed of development. Growth is funded by the investment of individual partners called "franchisees" who will replicate your concept in return for royalties for the right to use the systems you have created. In essence then, it is a series of partnerships between the franchisor and individual investors. The whole forms a franchise system-complete with its own set of rules, regulations and hopefully, common goals.

When making the decision to franchise there are many factors to consider. The first and most obvious is whether the concept is "franchisable". To be capable of being franchised a concept must be easily replicated anywhere in the world. Can a franchisee in Winnipeg get the same dinnerware and food supplies? Will the raw materials needed for the construction of the store be 3 times the price in Cape Breton? The next biggest consideration is the cost of entry. How much will it cost a franchisee to buy into your concept? What is the total investment required for a turn-key operation? And operations? Is a specialized skill set is required? This will narrow your target market for potential franchise prospects. How easy is the business to run? These factors, although not exhaustive by any means, are the primary ones that will essentially decide whether franchising is a viable model for your business.

The heart of the issue, however is financial. My first inquiry is always to the financial position of the company. How well capitalized is it? Frankly, if financing is not an issue, I rarely recommend franchising. Why? Because, franchising is a whole other business in and of itself. I tell clients that they will no longer be in the restaurant business for example. Their operations people out in the field will remain so but they, at head office, will be facing a whole new set of responsibilities and challenges. Franchising brings with it a host of onerous obligations and responsibilities to which you will be held by your franchisees-I can promise you that! Obligations of support and training, new product development, marketing, and the like are what occupy the time of the executives at head office now. Your obligations center on ensuring the smooth operations of multiple stores in a chain. Successful franchisors understand that from this point on the franchisee is their client. While the ultimate goal is always to satisfy the end consumer, that result can only be achieved by providing the front line franchisees with all the tools necessary to ensure their success. That means not only research and development and strong marketing programs, it means having the right personnel in support roles as well. The same rules of customer service at the store level apply to the franchisees. Remember, the name of the game is growth, in sales and in units. Your best salesman is a successful franchisee. After all, who are your prospects going to talk to first? The answers to the questions-do you get good support and are you making money, must be a resounding YES! Therefore, you must also be committed to investing in building an infrastructure of talented people to create, implement, and police the policies, procedures, and systems needed to achieve that YES!

The greatest challenge is in maintaining the peace. The relationship between franchisor and franchisee is too often contentious when it needn't be. Having been a franchisor and a long time director of a territorial franchisee, I have the benefit of having sat on both sides of the fence. My observation is that it's the breakdown in communication that causes this distress in a system. Franchisors fail to communicate the "why's" of their actions upon implementation and adopt the Nike "Just do It" approach. Franchisees feel bullied and out of the loop. Franchisees however, within 1-2 years, have invariably figured out a way to do it better and forget why they bought "the system" in the first place. In my seminars, I counsel future franchises on that very topic. I say "the day you stop following the system is the day you start losing money". Franchisors have to do a better job of communicating with franchisees on future plans, R&D, highlights of successful programs run by other franchisees and the like. When franchisees buy-in to a plan or at least understand the "why" of it or even the fact that it's coming, they are more likely to adopt it. It's as simple sometimes as a monthly newsletter. If there is a common goal then you must all play as a team with the franchisor as the coach. Otherwise, the whole team loses and falls apart-and we all know what happens to the coach then!

But what about the franchisors? Where do they go for support? Fortunately those of us in the franchising industry in Quebec, the former CNFP (Conseil nationale sur le franchise et le partenariat) became the CQF (Conseil quebécois de la franchise) in November, 2004. The CQF, as a recognized Association, has elected Board of Directors of specialists from the Quebec franchise community. Their website www.cqf.ca, is an informative, indispensable tool to anyone in or serving our industry. It contains a wealth of information and links to all the resources you could ever need. If you operate a franchise in the Province of Quebec, membership in this association is guaranteed support. From its Ombudsman program to its educational, social and networking events, the CQF is an important vehicle in staying connected and being informed about developments in franchising in Quebec.

On a larger and national scale, the Canadian franchise community is represented by the CFA, (Canadian Franchise Association). This association, long setting the standard for excellence in franchising, has safeguarded our industry from the bad reputation it has been given by some. The CFA logo displayed proudly by franchisors signifies that they have met the strict ethical and operational standards of the CFA for being granted membership and renewal. The CFA, amongst other things, provides educational, social, and business events for franchisors and ensures Canada's prominence on the international franchising scene. The CFA is the voice of franchising in Canada and presents outstanding professional opportunities to the community such as Trade Shows and its Annual Convention. I personally, have found membership in the CFA to be an essential element of any growth plan.

Making the decision to franchise is not made lightly. It does sound easy in theory I admit. Truth be told though, it is a different and additional business from what you presently operate. There's a reason it's a specialty. The best advice I can give you, and it holds true for any business decision, is: be smart enough to know what you don't know and hire an expert in that field who does. Now at least, you know what you don't know and where to find that expert!

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