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easeing in the franchise industry is truly the best example of the old adage “What comes first the chicken or the egg”? Do you find a franchisee and then begin your search for that “perfect” location, or do you find the location and then hope to lease it? Typically, site selection is the longest stage in the franchise sales process. A franchisee executes a Franchise Agreement and is ready to go...but wait...you have to find the “right” location first. This could take weeks, or months. In one of my own cases, I had to actually return a franchise fee to a franchisee because, after a year, we were still unable to find a suitable location in his territory.

So the million dollar question is: when do you tie up prime locations in advance of having a franchisee? There are several factors to consider when faced with this decision. At the top of the list is how deep your pockets are. Tying up a location requires that you incur all the expenses that go with it; rent being the tip of the iceberg. A landlord will not allow you the luxury of leaving the space vacant until such time as you sub-let it to a franchisee. Rather, you will be required to construct, furnish and fixture the space and then, operate the business, until such time as it is sold. Now you have a corporate store, (or two), to run. This takes you away from your primary business of being a franchisor not a unit operator. Aside from the financing required to build the store, you now need the funds and the human capital to operate it efficiently. Franchisors aren't supposed to be in the corporate store business and are often loathe to be. It's no secret that corporate stores perform significantly worse than franchised stores as there is no “owner” on the premises. So all around, owning corporate stores, especially if they are geographically distant can be a losing proposition. If however, you have both the funds and the infrastructure to handle it then it allows you the luxury of snapping up prime locations and having an inventory of existing locations to sell.

Is it ever recommended? Absolutely! There are situations where having a corporate store for sale is ideal and in fact, highly recommended. One such instance is the entry into a new market. Prospects are leery about buying “air”. Corporate stores in new markets act like showrooms with track records. Despite the fact that you may have dozens of locations in other markets, prospects like to see an operational model in their own backyard. This is especially true for the Province of Quebec where concepts have significantly different results than elsewhere in Canada as a result of the market demographics. Furthermore, a prospect is often more likely to purchase this corporate store as it will allow him to be operational and hence, profitable, earlier. There are tangible, measurable, results upon which to base a decision. So not only will a corporate store sell faster, it will allow for quicker growth of the concept as a whole by acting as a sales tool as well.

Another ideal reason for owning a corporate store is to have a training and testing centre. A home base allows you to train all franchisees at one location and with the same training team. This ensures consistency throughout the system. The staff in this case performs double duty as the training team

but also, as the unit's regular staff when no training is being conducted. Labour costs at the store level are controlled as the time spent by the training team actually training, is allocated to the training fee portion of the Franchise Fee and not at the store level. As well, it allows the franchisor to be able to test and implement products or ideas before rolling it out system-wide thereby increasing the likelihood of success in the marketplace.

So when that ideal location comes up you have a risk/reward decision to make. This all assumes that you have the funds to do so, otherwise the point is moot. If you are confident in finding a franchisee and can recoup your investment before opening (or really soon thereafter!) then go for it. If not, then decide if the benefits you will receive via this corporate store outweigh the costs and make the project attractive regardless of a sale. Keep in mind that visibility alone is a benefit not to be overlooked. Of course, there are some opportunities that are just too good to give up and the advantages outweigh the risks substantially, so much so that they idea of running it as a corporate store, still make it worthwhile.

My own personal opinion has always been that a franchisor should have at least one corporate store nearby. Firstly, it keeps you "connected" to your system both operationally and at the consumer level. I greatly favor a corporate training and testing centre for a multitude of reasons, the main of which is that it is the best way to live the life of your franchisees. It makes the franchisor both the teacher and the student of its own system. It has also been my experience that in new markets it definitely makes selling franchises a whole lot easier, especially in Quebec. One thing you can count on for sure though is that you will not have a long time to decide, these "perfect" babies get snapped up quickly! It's important to decide in advance what you would do should the situation arise so that when one does come your way you're ready to act....or not...

Lori