

Franchising a business is all about creating an offering that works for both the franchisor and franchisee. Clive Sawyer, Managing Director of Business Options franchise consultancy considers the five steps of franchising and how to get each right:

SETTING UP A FRANCHISE – HOW TO GET IT RIGHT

The five steps of franchising a business are as follows:

- The Franchise Feasibility Study: - The document that states whether a business can be franchised and if so what the franchise model should look like.
- Infrastructure Development: - Creates the systems and processes required to support a network of franchisees.
- The Franchise Agreement: - The legal agreement between franchisor and franchisee.
- Operations Manual: - A detailed description of how the franchisee MUST run their business.
- Franchisee Recruitment: - Identifies the most appropriate strategy for recruiting franchisees and creates the material to support the recruitment process.

Step 1: Franchise Feasibility Study

A franchise feasibility study is more than a document saying whether franchising a business is a viable option for both the prospective franchisor and their franchisees. The feasibility study will create the business model around which the franchise will operate. It will include amongst other things the franchise fee structure, detailed franchisor and franchisee financial projections, the basis that territory size should be arrived at, and the services that the franchisor will provide the franchisee: It will also state the obligations on the franchisor and franchisee, the ideal franchisee profile and include a detailed implementation schedule.

People often ask me whether they can *do* the feasibility study themselves. In practice it is very difficult to be objective about ones own business and it is very easy when the original model does not work to manipulate the figures until they do work. Even if a business owner could be entirely objective it is unlikely that they will have the franchise experience necessary to create a both meets the European Code of Ethics as adopted by the British Franchise Association and to position the franchise offering to stand the best chance of recruiting franchisees. An independently produced franchise feasibility study will be required by Banks, solicitors and the British Franchise Association to prove that the franchise model is viable and ethical.

Step 2: Infrastructure Development

Based on the franchise model created in the feasibility study, the Infrastructure Development looks at creating the internal systems and processes required to support and manage a franchisee network. A common misconception is that because the franchisee owns their own business that they will be less demanding than paid employees.

Franchisees are often more demanding than employees and rightly so given that they will have paid the franchisor for a proven business model. When things do not go as well as the franchisee had expected they will turn to the franchisor for help and support and when things are going well they will want help on how to grow their business even more. Franchisors should not be concerned about the level of support they will be required to provide as in most cases the franchisor will take a percentage of the franchisees turnover as an ongoing management fee. This means that the franchisor has a financial incentive in supporting the franchisees to assure that the franchisees are as successful as possible. This is why franchising is viewed as a partnership between franchisor and franchisee.

Step 3: The Franchise Agreement

As with any business transaction it is imperative to have a legal agreement that is fit for purpose. Franchising is a specialist business model and as such it is important to have a Franchise Agreement drawn up by a specialist franchise solicitor. Although a number of general commercial solicitors offer to create franchise agreements, cheaper than British Franchise Association accredited franchise solicitors, experience shows that these are often far too generic in nature and therefore may possibly contain loop holes that either the franchisor or franchisee can exploit making the agreement virtually worthless.

The Franchise Agreement is there for the protection of both the franchisor and the franchisee. In the past the Franchise Agreement has been very biased towards the franchisor however with the impending Unfair Contracts Act there is a move towards making Franchise Agreements that are more balanced and do not make unfair demands or expectations on the franchisee.

Step 4: The Operations Manual

The Operations Manual covers in great detail how the franchisee MUST run their business. One of the biggest concerns for business contemplating franchising is how to ensure that the franchisees do not do anything to damage the franchisors brand. A bad franchisee will not only damage their own business but also that of the franchisor and the rest of the franchisee network. For this reason it is essential that franchisees follow clearly laid out procedures for every aspect of their business, and it is the Operations Manual where these procedures are collated. Some franchisors make the mistake of giving their franchisees too much discretion as to how to run their business.

Experience however shows that if you leave twenty people to choose how to do something they will all do it slightly differently. MacDonal'd's, love them or loath them are a perfect example of how to ensure consistency of service and product offering across of large network of franchisees. Whenever you go to a MacDonal'd's, in any country, you know exactly what to expect and this should be the aim of all franchisors.

Step 5: Franchise Recruitment

This is the most important step in the franchising process. A business can have the most detailed franchise model, highly sophisticated internal systems and processes, a legal agreement drawn up by the most highly respected franchise solicitor and a manual the envy of all franchisors, however, if they can not recruit any franchisees, all of these things are meaningless.

From my experience not all feasibility studies are developed with the franchisee recruitment in mind. The feasibility study may indicate that a franchise can be profitable for both the franchisor and the franchisee however if the return on investment is too long for either party or the cost of setting up the franchise is too great, franchisee recruitment will be extremely difficult.

There are two steps in franchisee recruitment:

- 1) Developing the recruitment material such as the franchise brochure, a franchise application form and the detailed franchise information pack and
- 2) The franchisee recruitment strategy which should look at the skill set required of the franchisee and identify where best to market the franchise opportunity to attract the desired franchisees.

Franchisee recruitment strategies should be a mix of franchise specific and Trade media. For instance if you are franchising a Taxi business you may be looking for franchisees with driving experience or people who currently drive as part of their job. Therefore you may advertise your franchise opportunity not only in the franchise media but also in the Motor Trade magazines or Sales Rep publications. It is important to

have a good mix of recruitment media to stand the best chance of franchisee recruitment and this should include a mixture of: on-line; off the page; direct mail; exhibitions; referral schemes; National Associations and PR.

Getting the five steps above right are crucial if you are going to have a successful franchise operation.

When

done properly, franchising can be an ideal and affordable route for regional, national and or international expansion for a business. I would advise anyone considering franchising their business to visit the British Franchise Association website at www.british-franchise.org to find a list of accredited franchise consultants and solicitors in your area.

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