

Manzoor Ishani, Senior consultant solicitor with Sherrards, discusses the key areas that businesses should consider when planning to franchise

## THE 10 GOLDEN RULES

### **1) Competition: find out who is competing with you for franchisees.**

This means doing market research to see who is franchising not only a business which is similar to yours, but also what other franchises are available at around the same price that you are charging. Not all prospective franchisees are, of course, wedded to the idea of selling your goods or services. The ambition of most is simply to start their own business and many don't have a preference for any particular type of business. They approach franchising with an open mind, but know what they can afford. They will, therefore, be looking at the franchises which fall within their price range.

### **2) Franchisee selection: don't relax your franchisee criteria**

All too often there is a very great temptation to lower standards when recruiting the first few franchisees, and when the growth of the network is not keeping pace with expectations. This is understandable given the up-front investment franchisors make, and the need for them to start recouping their investment as quickly as possible and achieve a critical mass of franchisees. If you are forced to do so for sound commercial reasons, do so in the full knowledge that it is highly likely that you will be recruiting some franchisees who will turn out to be troublesome.

### **3) The future: ask yourself what are you doing now that will ensure your franchisees will be keen to renew their agreements when they expire?**

Franchising is a long-term proposition and franchisors who do not look to the future will find that their franchise network will diminish in the longer term.

### **4) Two businesses: as a franchisor you are in fact running two businesses with two sets of customers.**

The first consists of supplying goods or services to your customers, via your company-owned units. The second is that of franchising. Don't forget that your franchisees are also your customers and that your obligations to them are far different from those that you have to your public customers. Remember, too, that indirectly your franchisees' customers are also your customers.

### **5) Management skills: improve your management skills and those of your staff.**

The management of your franchise network is an art, not a science. The big challenge faced by your staff (who are employees) is managing franchisees, who are not employees but independent business people in their own right. Managing them as if they were branch managers will not bring the best out of them and lead to confrontation.

### **6) Support: one of the key obligations of a franchisor is to support its franchisees to the extent necessary to sustain them in their business.**

To avoid disappointment and accusations that you fail to keep your promises, always under-promise and over-deliver. In this way you will gain a reputation for doing what you promise and more often than not, more than what you promise. You must not fail to deliver what you promise.

**7) Exclusive territories: if you are granting exclusive territories, ensure you have the necessary protocols and mechanisms in place for dealing with turf wars that can break out amongst franchisees.**

Some franchisors refuse to get involved and leave their franchisees to sort things out for themselves. Others take a more proactive approach and try to "manage" disputes amongst their franchisees. Much depends upon the nature of the business. This is a problem that is clearly foreseeable.

**8) Performance targets: if you impose minimum performance targets you must be able to justify their imposition and the basis upon which they are calculated.**

Make sure they are reasonably achievable, and be prepared to impose such sanctions as you may have reserved if they are not reached, otherwise you will lose credibility and have problems in enforcing targets when others fail to reach them in the future.

**9) Standards: do not tolerate sub-standard franchisees. They affect the whole network and particularly their neighbouring franchisees.**

Failure by a franchisee to comply with your system is a mortal sin. The key to your success and that of your franchisees is uniformity of business practices; uniformity of marketing image; and uniformity in the supply of your products and services to customers.

**10) Bad may be good: it does not necessarily follow that the most demanding franchisees are the worst franchisees.**

It is often the case that the most demanding franchisees are also the best. That may be a coincidence, or it may be that it is precisely because they are good that they are demanding. Better to have a very demanding franchisee, who is firing on all cylinders and growing its business like topsy, than to have a quiet, compliant franchisee who merely chugs along.

*Franchiseworld Sept 2006*

