

By Clive Sawyer, Managing Director of Business Options Franchise Consultancy looks at the issues facing franchisors in their first year.

## **THE FIRST YEAR OF FRANCHISING – THE REALITY!**

*The first year of franchising is often a wake up call for many franchisors. In this issue we will consider the four main issues facing franchisors in their first year of franchising and provide some practical advice in addressing them:*

The four biggest issues facing a business in the first year of franchising are as follows:

1. **The number of franchisees recruited:**
  - Often businesses fail to hit their target recruitment levels.
2. **The internal support systems and processes:**
  - Often the systems and processes put in place to support the franchisee network do not work as well as planned.
3. **The demands made by franchisees:**
  - Often the franchisees are more demanding in their expectations and support requirements of the franchisor.
4. **How to maintain the enthusiasm you started with:**
  - Often the enthusiasm one started out with when developing the franchise starts to dwindle.

### **ISSUE 1: THE NUMBER OF FRANCHISEES RECRUITED**

Many businesses go into franchising with the view that their business is amazing and therefore prospective franchisees will be clamoring to sign up with them. Often the reality is far from the truth.

It is important to remember that your new franchise is in competition with a vast number of other franchises, many of which will be targeting the same prospective franchisees as you are. Often the competition has been franchising for far longer than you have and already may have an established network of franchisees to prove the success of their franchise offering. If you have not recruited as many franchisees as you had hoped during your first year, this is the time to review your offering in terms of value for money, realistic earning capacity, what the complete franchise package contains and how it stands up against the competition. New franchisors are often too hung up about charging large initial franchise fees, either based on the need to recoup their initial investment in developing and launching their franchise, or based on valuing the projected returns of the franchisee. New franchisors should not lose sight of the fact that to have a successful franchise you must first have some franchisees. It is often better to recruit five franchisees each paying an initial fee of £5,000 rather than one franchisee paying £35,000.

It is absolutely essential that franchisors continue to look at what their competition is offering. What may have started out twelve months ago as the best value for money franchise around may no longer be the case. New franchises may have entered the market offering a better package. Existing franchises may have improved their franchise package to make them more competitive. This is the time for new franchisors to reassess what they are offering and charging and ensure that is competitively positioned to give them the best chance for recruiting franchisees.

I have already mentioned more than once that there will be a lot of franchises all vying for the same people; therefore it is worth franchisors taking the time to review the profile of franchisee they are

looking for. Also do consider that there may be different ways and places to targeting potential franchisees where you will not be in direct competition with so many other franchises. It is important to think laterally and creatively when it comes to marketing your franchise opportunity.

## **ISSUE 2: THE INTERNAL SUPPORT SYSTEMS AND PROCESSES**

Often systems and processes designed to run and manage your franchisees prove not to be as effective as you had original thought.

It is important to remember that as with all businesses, change is a constant factor, so do not worry if areas of your systems and processes are not working smoothly from the outset. It is fact of life that even with the best planning there are bound to be things that have been overlooked. It is essential that you listen to the feedback and comments from your franchisees. They are ideally positioned to be able to tell you whether the systems and processes initially put in place are helping them to be successful or are a hindrance to their success. It is important not to just rely on the feedback from your franchisees; franchisors must look at the performance of all their franchisees, especially those under performing and question whether the under performance is due to the systems and processes. Having successful franchisees is not only important because of the revenue they bring but it is critical to the success of all your future franchisee recruitment. There is nothing that will put off prospective franchisees more than finding out that the existing franchisees are struggling and unhappy.

When businesses start out franchising many find it difficult to justify employing dedicated franchise support staff and more often than not try to manage their new franchisee network with the same resources that are running their existing business. It is understandable that many businesses do not employ dedicated franchise staff from the outset, particularly when they have not even recruited their first franchisee; however once a business has recruited their first few franchisees, they would be strongly advised to review this policy. As a franchise network grows, it is impractical to expect the internal resources currently running the business to also effectively take on the responsibility to additionally manage and support a network of franchisees. If this situation goes on too long both the business and the franchisee will suffer.

## **ISSUE 3: THE DEMANDS MADE BY FRANCHISEES**

Many businesses choose franchising as the route for national expansion because they think that all franchisees are totally committed to the success of their franchise since they own it themselves, and therefore will be 100% committed and put all their efforts in to making it a success. With this in mind, some franchisors mistakenly believe that the franchisees commitment absolves them of the need to support them since they will get on with running their business themselves. It therefore often comes as a big surprise when their franchisees start complaining and demanding changes.

Franchisors should never forget that their franchisees have paid for the right to run their franchise and in most cases will continue to pay through the ongoing management fees, royalties and/or mark-up on goods. The fees paid by the franchisee are for amongst other things: ongoing support, advice, guidance, and product and systems development. This means that the franchisor has a contractual legal obligation to provide support to their franchisees. Given that franchisors will be making money from these ongoing franchise fees, it could be argued that they are being very short sighted in not supporting their franchisees. In more cases than not, the ongoing fees are linked to the turnover of the franchisee, therefore if the franchisee is not successful then the franchisor makes

less money. So if you are finding your franchisees more demanding than you expected, question who is at fault. Turn their demands in to positive action. As previously stated, happy, successful franchises benefit the franchisor financially and help future franchisee recruitment.

#### **ISSUE 4: HOW TO MAINTAIN THE ENTHUSIASM YOU STARTED WITH**

The first year of any franchise is the hardest. Businesses are often very fired up and enthusiastic when developing and launching their franchise. New franchisors often have very high expectations of the numbers of franchisees they will sign up and the ease with which they will manage them, but in reality this is often just not the case. This is the time when it is easy for new franchisors to either loose enthusiasm or worse still question why they are even franchising at all!

When a business franchises it is like launching a brand new business. It is important to look back at the first year that the business started and question whether it went totally according to plan. So first and foremost do not worry if your enthusiasm levels drop, it happens to most of us. The secret is not to let it affect the business or the franchisee network. Now is the time to take stock and re channel your efforts and drive from developing a new business channel to developing a robust and sustainable business that will create a firm foundation to allow your business to expand, locally, regional and nationally.

Franchising provides businesses with the opportunity to establish a national brand far cheaper and quicker than can be achieved by traditional methods of company financed expansion. It is important however that businesses are clear of their responsibilities and obligations when entering the franchise market, whilst also not losing sight that managed properly, franchising can be the solution to a businesses growth far beyond the levels achievable through traditional expansion.

#### **THE FIRST YEAR OF FRANCHISING**

These four issues are the most common issues that new franchisors contact me about. The secret to addressing them is to first of all acknowledge that they are common issues facing most new franchisors, and secondly that handled properly can be the catalyst for developing the franchise in to a successful and thriving business. I would advise anyone who has recently franchised their business to review the success of their first year and address any issues that occur. Businesses are very good at seeking professional advice as to how to set-up and launch the franchise however they are often very bad at seeking professional advice about as to how to make their franchise successful. A list of accredited franchise consultants in your area can be found on the British Franchise Association website at [www.british-franchise.org](http://www.british-franchise.org)

For further information about franchising a business or getting the most out of ones existing franchise business, contact Clive Sawyer at: [clive.sawyer@businessoptions.biz](mailto:clive.sawyer@businessoptions.biz) or telephone 01420 540260 or visit the Business Options website at [www.businessoptions.biz](http://www.businessoptions.biz)

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