

Is Your Business "Franchisable"?

Franchising is a relatively flexible format, and just about any type of business can be franchised, provided it meets some basic characteristics:

- **It needs to be credible.** Does your company have experienced management? A track-record over time? Is the concept proven? Have you achieved good local press or public acclaim?
- **It needs to be unique.** Is your business adequately differentiated from its competitors? Is it marketable as a business opportunity? Does it have a sustainable competitive advantage?
- **It needs to be teachable.** Are the systems in place? Are operating procedures documented? Could someone learn to operate your business in three months or less?
- **It needs to provide an adequate return.** I don't mean just profitability. If a business can't generate a 15 to 20 percent return on investment after deducting a royalty (typically between 4 and 8 percent), it's going to have difficulty keeping franchisees happy.

If your business meets these criteria, then it may be a good candidate for franchising.

When a company makes a decision to franchise, it must first develop a sound plan for expansion. This plan must take into consideration the numerous issues confronting a new franchisor: speed of growth, territorial development, support services, staffing and fee structure, to name just a few of the most important issues. Larger companies need to address more complex issues such as channel conflict, anti-trust issues, and resource allocation. And obviously, your entire plan needs to be subjected to rigorous financial analysis and scrutiny to fine-tune your strategy for growth.

Once your plan is in place, you'll need the proper legal documentation. At a minimum, you'll need a franchise contract, an offering circular (as required under FTC Rule 436), and, depending on where franchises are being sold, state registrations. There are literally hundreds of different business issues that must be addressed in a good franchise agreement, and the decisions made regarding these issues will ultimately dictate your success as a franchisee.

Quality control for a new franchisor involves the development of highly developed systems. Generally, this translates into the development of an operations manual that must contain not only the systems used by the business, but also the checklists, policies, procedures and tactics that will allow these systems to be uniformly enforced. Moreover, operations manuals must be careful to avoid the creation of an agency and must also address issues that could create claims of negligence if you're to maintain an effective shield against consumer liability.

Finally, as a new franchisor, you must develop the ability to market and sell franchises. That requires knowledge of how to attract prospective buyers and the necessary materials (brochures, mini-brochures, videotapes, DVDs, and so on) that will help make the sale. Moreover, since the franchise sales process is highly regulated, you'll need to be educated in proper sales, disclosure and compliance techniques.

Every new franchisor quickly learns that when they turn to franchising, they've entered a completely different business. Regardless of how you make money as a franchisor, you'll have two roles: selling franchises and servicing franchisees. And of the two, ensuring the success of your franchisees is the most important.

Properly structured, franchising can allow small companies to more effectively compete with much larger competitors. It can also allow larger companies to gain the advantages of highly motivated unit management while reducing overhead. As such, franchising is an option that more and more companies should explore.

The key to success in franchising is successful franchisees. Without successful franchisees, no franchise system will last. But if you can put the interests of your franchisee first, those same franchisees might help you become the next McDonald's.