

To Franchise or To Not Franchise

While it is impossible to determine the “franchisability” of a business concept without a significant amount of analysis, there are 12 predictive criteria that assess the readiness of a company for franchising and the likelihood that it will achieve success as a franchisor.

Credibility

To sell franchises, a company must first be credible in the eyes of its prospective franchisees. Credibility can be reflected in a number of ways: organization size, number of units, years in operation, successful prototypes (corporate units), publicity, consumer awareness of the brand, strength of management, etc.

Successful franchise and business unit experience

Differentiation

In addition to credibility, a franchise organization must be adequately differentiated from its competitors. This can come in the form of a differentiated product or service, a reduced investment cost, a unique marketing strategy, or different target markets.

Value proposition

Transferability of Knowledge

The next criteria of franchisability is the ability to teach a system to others. To franchise, a business must generally be able to thoroughly educate a prospective franchisee in a relatively short period of time. Generally speaking, if a business is so complex that it cannot be taught to a franchisee in three months, a company will have difficulty franchising. Some more complex franchisors offset this handicap by targeting only franchise prospects that are already “educated” in their field (e.g., a medical franchise targeting only doctors).

Initial and ongoing training and support systems

Adaptability

Next, measure how well a brand can be adapted from one market to the next. Some brands (e.g., barbecue) do not adapt well over large geographic areas because of regional variations in consumer tastes or preferences. Other brands are constrained by varying state laws (i.e., labor laws related to contract 1099 versus W2 employee). Still other brands work because of the unique abilities or talents of the original entrepreneur(s) behind the concept. Finally, some concepts are only successful based on years of perseverance and relationship building.

Experience working in various markets

Successful Prototype(s)

A refined prototype (corporate unit) is necessary to demonstrate that the system is proven, and is generally instrumental in the training of franchisees. The prototype also acts as a testing ground for new products, new services, marketing techniques, merchandising, and operational efficiencies.

Business recipe is well defined and profitable corporate unit(s)

Documented Systems

All successful businesses have systems. In order to franchise, these systems must be documented in a manner that communicates them effectively to franchisees. A franchisor will need to document its policies, procedures, systems, forms, and business practices in a comprehensive and user-friendly operations manual.

Both hard copy and online (i.e., internal franchise web site)

Affordability

Will franchise candidates be able to fund a franchise? The ability to fund a new business and varies by cost of capital, point in the economic cycle (i.e., growing economy versus a recession), experience of franchisor and candidate looking for funding, etc. If franchise candidates cannot get funded, then a franchisor will have a very tough time growing.

Targeted franchise candidates can get funding

Return on Investment

This is the real acid test of franchisability. A franchised business must, of course, be profitable. But more than that, a franchised business must allow enough profit after a royalty for the franchisees to earn an adequate return on their investment of time and money. Profitability is always relative. The franchise investment must be measured against other investments of comparable risk that compete for the same dollar.

FDD items 7 & 19, and franchisee validation

Market Trends and Conditions

While not an indicator of franchisability as much as a general indicator of the success of any business, these trends are key to long-term planning. Is the market growing or consolidating? How will that affect your business in the future? What impact will the technology have over the next 5 years? Will the franchisee's products and services remain relevant in the years ahead? What are other franchised and non-franchised competitors doing? And how will the competitive environment affect your franchisee's likelihood of long-term success.

Viable and profitable business for the next 5+ years

Capital

While franchising is a low-cost means of expanding a business, it is not a "no cost" means of expansion. A franchisor needs the capital and resources to implement a franchise program. The resources required to initially implement a franchise program will vary depending on the scope of the expansion plan. Once the costs of recruiting, training, supporting, printing, , marketing, and personnel are added to the mix, a franchisor budget in the first few years tends to balloon (\$1 million+).

Franchisor is well-capitalized

Commitment to Relationships

Successful franchisors focus on building long-term relationships with their franchisees that are mutually rewarding. Unfortunately, not all franchise organizations understand the link that exists between relationships and profits. Strong franchisee relationships enable the franchisor to sell franchises more effectively, introduce needed changes into the system more easily, and motivate franchisees and their managers to provide a consistent level of products and services to their customers.

Franchisor truly cares about franchisee happiness and success

Strength of Management

Finally, the single most important aspect contributing to the success of any franchise program is the strength of its management. The single most common contributor to the failure of start-up franchisors is understaffing or a lack of experience at the management level. Oftentimes, new franchisors will try to take everything on themselves. In addition to absorbing several new jobs for which the franchisor has little to no time, the franchisor needs to exhibit expertise in fields in which he or she may have little or no experience.

The first step in the decision to franchise is an examination of the question of whether or not a business concept is actually “franchisable.” Any organization seriously considering franchising should undertake this analysis before deciding that franchise is the right strategy.

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Rob McCauley

Franchise Investment Consultant

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