



CAN YOUR BUSINESS BE FRANCHISED?

By Michel Gagnon

Not all businesses can be franchised. There are a few basic rules and principles that will help you determine if your business is ready for the exciting world of franchising.

Let's start by asking why business owners should consider franchising their business in the first place. There are three principal reasons, and all other reasons are typically variations of the following:

- Using franchising as financial leverage to grow a business faster than one could with only one's own capital;
- Expand in unfamiliar areas using the local knowledge of franchisees; and
- The belief that franchise owners will have more significant impact on the sales, customer satisfaction and the bottom line than paid employees.

Can any business be franchised? Definitely not. As a rule, a concept can be considered "franchisable" if it meets four basic criteria:

1. It can be reproduced
2. It is profitable
3. There is an added-value to the potential franchisee
4. You have the financial resources to support a franchise system

It is important to understand that, in most cases, potential franchisees are not entrepreneurs themselves. Typically, they are employees of other businesses wishing to improve their current situation and want to own their own business but realize they do not have required business or industry experience. They join a franchise system to provide them with guidance and support to achieve their goals.

Basic Criteria #1: The business can be reproduced

In the case of first criterion stated earlier, an example of a "no-go situation" is the case of a new entrepreneur who has a great idea, which he or she thinks is a sure bet for a franchise. However, the entrepreneur can't wait to find franchisees to prove him or her right...or wrong. You cannot launch an unproven business by asking a franchisee to do what you are unwilling or not capable financially to do yourself. After all, he or she is going with a franchise because they are looking for support (see above). Most franchise consultants in Canada are approached by people on a regular basis to help them launch a business idea using capital from franchisees. Franchising is not about using other people's money to try something out. If you have little or no capital to start your business, there are alternative methods and financial resources in the market to help you. As a rule, before considering franchising to expand, your concept should be operational for at least three years with a second unit opened with similar success as the first one. It should be replicable.

Another example of a "no-go situation" is a concept which depends solely on its founder (e. g. a creative chef, a unique knowledgebased service, etc.) and that the recipe for success cannot be reproduced in documented procedures or through a training program.

This does not mean that other stores cannot be opened with success, but if it requires day-to-day supervision by the founder, you need to ask, "what is the value of a franchisee for this concept? "

Basic Criteria #2: The business is profitable

The second criterion is about return on investment and profits. Most people go into a business to make a living, pay the debt incurred to acquire the business, and make some profit for a nest egg when it is time to retire. While some people don't care about the money, they are a rarity. Therefore, it is hard to franchise a business that is not profitable.

The concept must be profitable to both the franchisor and franchisee. As simple as that sentence sounds, some franchise systems go one way or the other, which cannot work on the long run. Franchisors must make money as well in order to retain the staff needed as the system grows and cannot depend solely on initial franchise fees to sustain this. Obviously, the reverse is also quite true. Franchisees will quickly become disillusioned if there is no profit after a reasonable amount of time. The consequence can be extremely tense relationships between franchisor and franchisees and a grinding halt in expansion as current franchisees negatively influence new franchise candidates.

Before launching a franchise system, careful analysis must be made to ensure that there is enough profit for both parties. The balance of profitability for the franchisor and franchisee is a fine line but franchising is a symbiotic



relationship and one party cannot take advantage of the other one and expect to survive.

Basic Criteria #3:

Added-value to potential franchisees

Some franchise offers seem to suggest a franchise is something that anyone with a reasonable mind can do by themselves. The problem with that is, of course, perception. Why would a franchisee pay an initial fee and ongoing royalties for a business that they can start themselves?

The added-value of a franchise is not necessarily related to the product or service. It can be about unique training or support, the supply or pricing of the product, the unique strength of the brand or the marketing. Think of some of the most successful franchises in Canada. A pizza is a pizza, a doughnut is a doughnut. Why would one buy it at one franchise as opposed to another? Often, it is not the uniqueness of the product but everything else, like the consumer experience and brand strength. Franchisee recruitment is the same. There must be some perceived added-value from the franchisee's perspective.

Basic Criteria #4:

You have the financial resources to support a franchise system

Another common misconception that would be franchisors have is that capital will come entirely from franchisees. This perception is incorrect. Besides the three criteria I talked about earlier, there will be a requirement to get your 'franchise act' together before attracting people to your concept. You will need to invest in analysis, legal documentation, marketing documents to

present your concept, advertising to promote your franchise, and resources to handle inquiries, training and support. When candidates come to you and before they are willing to invest their hard-earned money and leave their job, they will expect that you have everything set up to run this business.

So what do you do if you have met all the above criteria? Do you launch your business as a franchise? There are a few more questions to first ask yourself: Are you the type of person that needs to be in complete control all the time? Are you the type that cannot stand to share anything with anyone else? If, in your mind, people are a necessity that you could do without and you dream of the day when you could clone yourself, franchising may not be your thing.

Franchisees are partners in your business. They have invested their time and, in most cases, a lot of their own money to own a business. If you cannot accept that franchising is about relationships, sharing ideas and working together, this business model is not for you.

As far as what type of business can be franchised, there is great news. Franchising has expanded over the years from restaurants to a large segment of retail and services. Today, there are "brick and mortar" systems in areas such as food, retail, automotive, business-to-businesses, pets, beauty and more. Home-based franchises provide "blue collar" and "white collar" services ranging from maintenance, cleaning and accounting to teaching, training and internet services. The Canadian Franchise Association (CFA) website lists over 46 categories of franchise offerings in addition to an "Other" category!

More and more manufacturers are using elements of the franchise business model to motivate their sales force/distribution network with the objective of creating a business format for people who worked solely on commission before. Of course there is a fine line between licensees, wholesalers and franchisees, but in some cases, this format is closer to franchising than other forms of distribution.

The bottom line is that franchising is now a worldwide industry with 17,500 franchise systems, 1.2 million franchisees and 12.5 million employees generating \$1.4 trillion U.S. annually (Portman, Franchise Africa Symposium, 2002). It is worth considering as a growth strategy for businesses in Canada.

About the Author:

Michel Gagnon is a Management and Franchise Consultant and President of Davier Consultants since 1994. Davier has partners in Halifax, Montreal, Toronto and Vancouver as well as international partners in over 12 countries. Davier has helped medium and large corporate companies in franchising their businesses over the years. Davier offers full Franchise and Management Consulting services.