

## **SECRETS OF SUCCESSFUL FRANCHISORS**

There are many factors that contribute to a successful franchise. Chief among these is having the right people in charge of the franchise. Over the years, I've noticed several other characteristics shared by successful franchisors. Obviously, adherence to the following list will not guarantee success, but it will certainly put you far ahead of the average new franchisor.

Franchisee Selection Process. Smart franchisors are very selective in establishing franchisee relationships. Your franchisees are the single most important factor in determining your success. You must make sure that they are financially, intellectually, and emotionally qualified to run the business. You should never grant a franchise to someone that you would not feel comfortable hiring as a management employee. You should also investigate them as if you were hiring them as employees.

Multiple Revenue Streams. In addition to standard franchise and royalty fees, franchisors can increase revenue streams from franchisees through sales of goods or services to the franchisees, such as required inventory and/or equipment purchases. Franchisors can also receive rebates or commissions from other suppliers which the franchisees are required or encouraged to use. Finally, rental income can be earned by leasing site locations to franchisees.

On-going Services. Successful franchisors offer more to their franchisees than just a trademark and a business model. They also offer services such as location selection and development services; complete initial and on-going training (inadequate training is one of the most common causes of franchisee failure); complete specs and systems communicated in a clear manner; procurement programs for equipment, supplies, inventory and services; advertising assistance; and research and development.

Maintaining System-Wide Uniformity. Maintenance of high and uniform standards throughout the franchise network is of significant value to the franchisor and each of the franchisees. It is important to the value of the system, that a customer receives high quality and consistent experience in dealing with each franchise location. Whether or not you are a fan of McDonald's, you can't deny the remarkably consistent experience in visiting a McDonald's in Chicago, Atlanta, or Tokyo. A franchisor must implement policies and procedures that help maintain standards by rewarding compliance and enforcing system standards by means of inspections and audits where positive motivation has not proven effective. The more "turn key" you can make the business, the more uniform the franchises will become, and the greater your chance of success.

Franchisee Relations. Although a franchise relationship is governed by contract, the contract should be viewed as more of a "safety net" than an instructional document. It is essential that the franchisor develop a relationship of mutual trust and respect with each franchisee. Not only will this help individual franchises succeed, but don't forget that your current franchisees are your biggest recruiting tools to gain new franchisees. Great franchisee relationships require regular and open communication with franchisees. A franchisee must believe that the franchisor is truly committed to helping him achieve success and has his best interests at heart. A franchisee needs to know that his suggestions and concerns will always be taken seriously. Franchisors need to establish quick and flexible dispute resolution procedures and always attempt to resolve disputes amicably. Successful franchisors will also have systems in place that allow some degree of creativity and innovation by the franchisees. Franchisees will often provide excellent ideas for improving your business. Much more so than employees, they have a direct, vested interest in improving your business model.

This can be accomplished through an association of franchisees or a franchisee advisory council. These councils may meet with or without franchisor involvement, though it is a good idea for the franchisor to stay involved to gauge franchisee sentiment, discuss future plans for the franchise and to address

franchisee concerns. Many franchisors have weekly or monthly conference calls with all franchisees in attendance. It is an over used axiom, but a franchisee must always believe that he is in business FOR himself but not BY himself.

Smart Expansion. A franchisor should have a comprehensive plan for expansion. Initially, the franchisor must determine which markets can be successfully established. These beginning markets usually will be those which meet several of the following criteria: (i) franchisees can be successfully monitored and supported, (ii) the market is one where good locations can be obtained at affordable prices, (iii) it is not already saturated with competitors, (iv) both population and demand for the franchisor's products or services are expanding, (v) suppliers can effectively and economically deliver essential products, equipment, inventory and supplies to franchisees, and (vi) the franchisor's trademark is already recognized and has value.

In most cases it is advisable to concentrate expansion in one market or a few contiguous markets in order to concentrate advertising dollars, support and assistance, and to effectively monitor franchisee compliance and performance. New franchisors must be careful not to spread resources (both financial and personnel) too thin.

Franchisee Financing. Successful franchisors realize the importance of assisting franchisees with their financing. This can come in many different forms. Such as business plan assistance, assisting with loan applications, and establishing working relationships with companies that specialize in providing franchisee financing. Some franchisors will offer financing to franchisees or will guarantee the bank loans of their franchisees. This can be a risky strategy and is not recommended for new franchisors. Simply stated, the easier the franchisor makes it for franchisees to obtain financing, the more franchises will be sold.

Systematic Sales Process. Another key to success is having a "franchised" sales system. What I mean by this is that you should have a standardized process (including application forms, standards, timelines, checklists, etc.) so that franchise inquiries and sales are handled on a consistent basis. This is important both in terms of legal compliance and in terms of sales success.

Franchise Brokers. Establishing a good working relationship with a franchise broker can give a new franchisor credibility, and greatly increase the number of franchise units sold. Franchise brokers typically work like real estate agents in that they market your franchise to potential buyers and charge you a percentage fee for each unit they sell.