Knowing When Franchising is Right

Last month this space was used to make the case for franchising. The options for companies seeking to expand can include organic growth and developing an affiliates network. Franchising is not the sole possibility, but it has distinctive advantages that, if leveraged properly, can serve to accelerate the pace of growth and establish a commanding competitive advantage.

Franchising is not a new concept. According to research conducted by Tudog, some academics believe that franchising was first used, albeit in a primitive way, in the Middle Ages as landowners sold the right to collect taxes to others. The real boom in franchising occurred in the 1950s and 1960s when the companies we are all now so aware of, such as McDonald’s, Carvel, Burger King and others, got their start.

Like every strategy, franchising is not without its faults and risks. While these need to be fully understood and considered when weighing the franchise option, the conditions shared herein will serve as the primary motivating factor in exploring franchising. Moreover, franchising may be right as a strategy, but unsuitable for your particular industry or sector. Determining whether franchising is right depends on how well your company meets the following critical points:

1. **Operations are Labor Intensive** – because the owner of a franchise is also the operator and has an invested interest in the performance of the enterprise, the more labor intensive (as opposed to capital intensive) the work is, the better it suits the franchise model. The work will get done because the franchisee has a vested interest in making sure it does.

2. **Outlets are Low Cost** – the requirement that the franchisee pay the costs of preparing and opening the outlet means that very costly units will minimize the number of potentially available franchisees that would have an interest in your company. The lower cost units have a better chance of success because the number of prospective interested parties from which viable franchisees can be selected is much larger.

3. **Local Market Knowledge is Helpful** – not every business needs adjusting according to local market habits, but those that do are well suited for franchising because the local franchisee is seen as having that local know-how and network needed to boost the business. Add to this the previously discussed inclination of franchisees to have the proper owner perspective and motivation, local standing makes franchising a viable option.

4. **Brand Name is Important** – if you are in an industry where brand name has no bearing or influence on the decision of the customer/client then franchising may not be the best strategy to pursue. Brand is a central component of franchising, with franchisees primarily attracted to the strength (or potential strength) of your brand. If you are in a sector where brand can make a difference and serve as a sales driver, franchising is worth looking into as an expansion option.

5. **Your Business can be Standardized** – the only way you will be able to successfully franchise is if you are able to standardize your operations so that there can be a replicable result each time your process is engaged. This means that you have to be

able to ensure that you produce the same results each time and that these same results can be achieved regardless of which franchisee is engaging the process. If you are unable to standardize the operations or if the results are somehow reliant on expertise or know-how you are unable to transfer (via training and support) to the franchisee, you may not be able to franchise. The standardization of product is what makes franchises successful because it allows for consumers to understand, anticipate, and expect certain results when they engage the company.

6. **Local Production is Possible** – one of the key advantages to franchising is that, with the proper training and support, the franchisee is responsible for the recruitment of customers/clients and the delivery of products/services. If your product or service cannot be fulfilled on the local level, one of the primary benefits of franchising could be lost. There are some franchises that fulfill at a central location and then distribute the product or service to the franchised outlet. These models do work depending on the type of product/service the company sells. However, even in these models, there is an additional layer of activity or expense that cuts down on profitability and makes the franchise model, for these circumstances, suspect.

7. **Local Management Needs to Make Decisions** – if your company is such that all decisions are made – or need to be made – at the top level then franchising is not for you. What franchising does better than most other multi-unit expansion models, is create a strong independent presence at the local level. The franchisee, as an independent manager, has all the incentives necessary – including an investment of capital and a lion's share of the profits – to make good decisions. With your training and support these decisions can be improved and the probability of the right decision increased. Franchising allows for the establishment of strong local management that has all the right reasons to make the best decision. If your company model calls for or has the need for strong local management, then franchising could be the way to achieve this.

Franchising is not an effective model for every business. However, if your company meets the 7 aspects discussed above, there is the possibility that franchising makes a lot of sense and could prove to be a cost effective way to significant and rapidly expand the size and revenues of your company.