Rules for Successful Franchising

Tudog has been focusing a bit on franchising because it has determined that using the franchising platform as a driver for expansion and growth matches the objectives, resources and opportunities of a number of clients. In most cases these clients have not even considered the franchising option because they associate with fast food and other relatively low-end concepts. Tudog has discovered that this is not true, and while some "personality" of the business needs to be sacrificed on behalf of the standardization that is required in order to succeed at franchising, chances are you have to compromise on that personality regardless of the growth strategy you select. This being the case, there are instances when it makes great sense to look closely at the franchise model.

Still, not every concept is suitable for franchising. If you try to force the model you will discover that either there is no interest in your franchise, or you are unable to sustain the model, leading to franchisees failing and most likely a series of lawsuits. Franchising, like every other strategy, has the boundaries within which it can and will succeed. Tudog has identified 9 elements of the franchise boundaries. They are:

1. Make Sure Your Industry is Right – there are certain industries that are not suited for franchising primarily because the level of expertise required to operate the business is not typically possessed by the average person and cannot be taught to them in a timely and cost effective way. Under these circumstances you could in fact franchise if you elected to, but your field of potential franchisees would most likely be too small to justify the costs associated with developing the operational and legal structures of a franchisor.

2. **Know What You're getting Into** – franchising is an ongoing process that requires you support and maintain your franchisees. You must make certain before you embark on the franchise path that you have done a complete analysis of the advantages and disadvantages associated with the model and that you have concluded not only that the pros outweigh the cons, but also that you are able to deliver and sustain delivery of your product development, training and service obligations. You also need to make certain you have the infrastructure in place to work with franchisees as well as monitor their compliance to the franchise agreement.

3. **Establish Strong Policies** – the running of a franchise business is not necessarily easier than operating multiple company owned units. The idea behind franchising is that the franchisee serves as an excellent local manager because he/she has paid a fee to get into the system and therefore has the motivation to succeed. The downside is that sometimes that success may come at the expense of the franchisor or the brand. Therefore policies associated with franchisee interaction, operations, marketing and other critical issues need to be established, institutionalized into your operations, monitored and adjusted as necessary, and maintained for operational integrity and profitability.

4. **Commit to Your Franchisees** – the franchises that fail are those that adopted the strategy because they were attracted to the initial free franchisees pay to enter the system. This fee is generally no more than a way for the company to recover the expenses it put out in order to establish the franchise's legal and operational infrastructures, create the standardized processes, and train the franchisees. There is not much profit in the initial fee unless you are a veteran franchise operation that has

already recovered initial expenses or you have succeeded in selling so many units that you have managed to cross over to profitability after retrieving initial costs. Either way, however, the reason for selecting the franchise model is not the initial fee, but rather the low costs of expansion, the development and value increase in the brand, and the ongoing royalty payment. These three reasons cannot and will not be fully realized if you do not, from the very start, commit yourself to the success of your franchisees and do everything in your power so that they flourish.

5. **Understand Your Expansion Strategy** – one of the key issues with franchising is the placement of franchise units in terms of proximity to existing franchises. If you place them too close to one another you will provoke franchisee dissatisfaction, and perhaps even legal action. If you place them too far apart from one another you might not be meeting the demands of your customers or maximizing the potential of your business. The expansion strategy needs to balance these two contrasting objectives and make sure that you are approaching the U.S. in a logic sequence and that you are dividing up territories in a reasonable way.

6. **Select the Right Price for Entry** – the price of entry into your franchise system is a function of the overall cost of the build out and execution of your concept, the extent and intensiveness of your training, the degree to which what you offer cannot be easily duplicated (protected by trademark or with a high degree of market awareness), and the capability of your targeted franchisees to bear the cost you're demanding. As with any pricing strategy, your desire to maximize your profits needs to be balanced by the value you are providing and the ability of your market to pay. You should not be looking at the price of entry as a profit center, but rather as a means of recouping the investment you have made in training programs and codifying your operations. Your profit expectations should be focused on royalty payments. This will help you keep your price of entry reasonable and your service levels to your franchisees high.

7. **Support Your Franchisees** – franchising is all about the franchisees. A company that fails to support its franchisees will soon find itself in a world of trouble as the level of sales will decline, franchisee cooperation will erode, and your customers will begin seeking alternative outlets for their needs and wants. The provision of support to franchisees is an act of enlightened self-interest because the better the franchisees do, the better the company does both in the sense of the royalties received and in the sense that it will be easier to attract additional franchisees. Supporting your franchisees means providing them with the training they need to properly operate your business, as well as creating the mechanisms for on-going assistance when they feel they need some guidance. There may be costs associated with a high level of franchisee service, but you will find it is well worth the expense.

8. **Distribute Franchisees Wisely** – not only do you need to make sure that you properly define the structure and criteria for what constitutes a franchise territory, you must also make sure that you have the criteria set for the type of person you believe will make a successful franchisee. Again, if all you are trying to do is sell franchises so you can get the initial fee, you will soon find your business ailing. You need to make sure that your franchisee is suited for the type of business you have, that they are the type of person that follows rules and instructions, that they have a genuine interest in what you are doing, and that they have the basic (pre-training) skills needed to succeed.

9. **Stay Legal** – keep in mind that franchising is a regulated system and that there are rules and laws that need to followed and processes that need to be adhered to in order to be compliant with all the requirements. Creeping close to the edge of the rules may help you sell a few extra franchises or extract a few extra dollars, but in the end the complications brought on by FTC investigations and perhaps sanctions negate any benefits you may have enjoyed.

Succeeding in franchising is very much like success in other forms of business. If you act with forethought, plan well, execute properly, and aim to deliver a true benefit, chances are you'll go very well.