

## QUESTIONS TO ASK

### BEFORE YOU FRANCHISE YOUR BUSINESS

Franchising a business is a proven route to rapid growth. Many business owners dream of seeing their brand become a household name, with a network of franchisees around the country, or even around the globe. When the right concept is franchised effectively, it can be a great expansion strategy that does not require as much up-front capital as growing through company-owned units.

But the process of becoming a franchisor can be a long one. It requires making many thoughtful decisions early on that will affect your business for years to come. There are also a lot of legal steps involved, and paperwork to process. This Guide sets out some questions to ask if you are considering franchising for your business.

#### 1. IS YOUR BUSINESS SUITABLE FOR A FRANCHISE?

An important initial question to ask is whether your business is suited to being franchised. Your business might have a good track record of sales and profitability, but there are many factors to weigh up. Your business concept should appeal both to prospective franchisees and the end consumers/customers. Most good franchise concepts offer something familiar but with a unique twist.

##### **Can you clone the business?**

If your business needs your personal touch to be successful, then it probably won't work as a franchise. This is a challenge for a lot of service businesses, especially those that began as one-person companies. For example, if you're a talented graphic designer or hairdresser, clients might only want to work with you—not your employees, whom they perceive as less skilled.

If the business is currently too centred on you, then now is the time to start to train-up employees to provide the same services you do. Then begin to ease your customers into working with your employees instead of with you. You could charge more for your personal services and less if it's your employees doing the work – this is very common in salons. Alternatively, your employees can handle all new customers while you keep serving your “regulars.”

##### **Can you systemise and replicate the business?**

The business should be something you can systematise and replicate: every McDonald's restaurant through the world provides the same food in the same way (and also has the same décor and styling).

Do you have the standardised systems you need to franchise your business (or can you create them)? You will need to have operational systems and processes to provide a consistent product or service by all franchisees. Standardisation is also required to train new franchisees and their employees.

For example, if you own a shop selling food, do you have a written system detailing all the steps of serving customers? This should get down to tiny details, such as whether to put on gloves first, how and when to wash serving utensils, what quantity forms 'one serving', etc. These details are what can make or break a franchise's success and profitability. All your franchisees should serve the same amounts in the same way, so the customer experience is the same every time, no matter which branch the customer goes to.

Even if you have only one unit or branch now, you should have an employee handbook and an operations manual so that there is a system to follow. That can then form the basis for what you provide for franchisees (and insist that they follow) in future.

## **2. IS YOUR BUSINESS DOING WELL (ENOUGH)?**

A successful franchise will take a business that is already profitable and try to replicate that success in other areas. Often the business will have more than one profitable units in operation before trying franchising. Potential franchisees will want to see that it works in more than one town or district.

Having one profitable location is just the beginning. In general, it's best to have at least three successful locations up and running profitably before you take steps to franchise a business. The process of opening and running multiple locations will give you a good idea of what's involved in opening franchises and helping them succeed.

Franchising involves some expenditure (although it can be spread over time), so you need access to funds before you start. For instance, you will need to prepare and complete the necessary legal documents, market the concept to potential franchisees, hire salespeople to sell the franchises, and provide training and ongoing support for your franchisees.

## **3. WILL YOUR BUSINESS TAKE OFF ELSEWHERE?**

Is your business profitable and growing? Do you enquiries from outside your area, or customers from elsewhere wondering when you are going to open near them? If so, that's all to the good, but you should also do some market research.

While your gut instinct may be that what works in your area will also take off elsewhere, it would be best to confirm (or not) this with some solid research. You need to determine both that there is a demand and also that the demand is not already being met. If the market in an area is already saturated, then your franchisee may struggle for customers.

Is what you sell familiar in other areas of the country? If not, that is not necessarily a problem, but you may need to educate consumers on your concept. But not everything translates geographically. Is there a market elsewhere, i.e. does your target customer exist outside your area, is it a purely local demand? A business selling pet products at country fairs has probably got a market nationwide, whereas a football team merchandise will have its biggest market local to the team.

Also, is there a supply of potential franchisees in the areas you are considering? A concept that requires white-collar management experience might find more potential franchisees in an urban area than a rural one.

The results of your research are something else that can be shown to prospective franchisees to make the franchise an attractive proposition.

#### **4. ARE YOU READY FOR A NEW JOB? - FRANCHISOR**

Becoming a franchisor means that you will be engaged in entirely different activities from when you were a business owner. You will primarily be selling franchises and supporting franchisees now. Whatever you did before - selling pizza, designing websites, cleaning offices, bookkeeping – will all now be done by your franchisees.

This change in role can take some adjustment. You will have to embrace the new role of teacher and salesperson, selling and supporting franchisees, rather than going out and doing it yourself. Your days will probably be spent looking for new areas and regions for franchise expansion, creating marketing plans for your franchise, meeting prospective franchisees, training new franchisees, and providing ongoing support for franchisees. Or, you can hire someone to do those jobs, i.e. a franchise operations manager.

You will also have to give up some of the control you have had up to now over how your concept is executed. Franchisees won't do it exactly the way you would – but they can still do it well. Are so wedded to your concept and the 'right way' of doing things, that you won't let anyone else touch it? If so, then franchising may not be right for you.

#### **5. HAVE YOU CONSIDERED THE ALTERNATIVES?**

Before you plunge into franchising, you may want to consider other options. You can grow your business through organic growth in one location or opening new units as subsidiaries. This could be financed through borrowing or taking on partners rather than relying on franchisees.

This Guide is for reference purposes only, and does not provide advice for any particular set of circumstances.

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