

FRANCHISE RESEARCH

Statistics

- Ray Kroc/McDonald's largest and most recognized brand in the world
- McDonald statistics: 96% of US population has visited at least once, 18 million served daily in the US-30 million worldwide, during the last 40 years they have employed more than 16 million people, 30 billion in annual sales.
- According to the International Franchise Association, the estimated number of franchised locations in the U.S. is almost 400,000 in 75 industries, employing almost 10 million workers. More than 2,500 companies offer franchising opportunities from fast food to security services.
- More than 35% of franchises fail after 3 years

General Information

- 2 types of franchising – business format (restaurants, hotels, etc.) and product or trade name (auto dealership, gas station, etc.).
- "Franchising is the most successful marketing concept ever created." *John Naisbitt, Megatrends*
- Vital economic force/vital part of the US economy – helps minorities and women to own a business, helps individuals compete with large corporate chains, reduces economic concentration, provides valuable trademarks, trade names and assistance to franchisees
- Stages of franchise development
 - Infancy – establishing business concept and putting it into operation. Developing franchise format/turn-key operation and testing it, developing and documenting the systems and creating an effective framework that will support the growth of the franchise
 - Adolescence – Attracting and recruiting the customer (the franchisee), building an effective management team to support further growth and enhance relationship with franchisees
 - Maturity – Ensure system wide adaptation to new opportunities, uniformity strong franchised brand, well documented operations systems, corporate office/management team, build and maintain market-share, stay competitive in the market place
- Cooperative arrangement between 2 entrepreneurs - the franchisor and the franchisee. Independent biz owner (franchisor) has a vision (entrepreneurial seizure) for growth or expansion with a product or service can be duplicated or replicated. Individuals (franchisees) looking for business opportunities, independence, profit, ability to be their own boss and more life (entrepreneurial seizure).
- Franchising allows expansion/growth of a proven concept/product/service and method of operation/a method of doing business/strategy for brand expansion

Developing a Successful Franchise

- Ability to market the product or service the franchise will sell.
- Build a strong franchising foundation (7 Centers) - operational systems, money marketing strategies, etc.
- 3 key components of successful franchisor--brand, operating system (fulfill on the promise) and ongoing training and support--give your franchisees the tools to expand its customer base and build its market share
- Ability to market the product or service the franchise will sell
- 3 methods of growth: add company units, add franchises, existing franchises add units – Plural Form combination of models (most highly successful franchisors use this model)
- Franchisees cannot be successful unless the franchisor is successful and a franchisor cannot succeed without successful franchisees—they help sell franchises and can take the franchise organization to new levels of growth
- Market the franchise concept itself (vision) the business format is what the franchisee buys--complete business methodology
- Recruit franchisees capable of running multiple units and give them the tools to build an organization to minimize the risk of decreased operating performance
- Franchisors: rapid expansion with minimum capital—more freedom

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Problems/Challenges

- Uniformity (preserve the value of the brand), local responsiveness (diverse local market conditions), system wide adaptation (establish new standards of uniformity)
- Franchisees feel they bought a job not a business (and are often paid less), they bought a brand with no drawing power, franchisor assistance not available/no security
- Franchisors: lack of uniformity and control
- Many companies franchise prematurely as a growth alternative and then haphazardly assemble and launch a program.
- Common reasons franchises fail: difficulty recruiting qualified franchisees, failure to provide adequate support, lack of franchise systems, inadequate ops manuals, lack of strategic planning.
- Growth--key challenge--it's much easier to add 50 units to already successful franchisees than to recruit 50 new franchisees--proven track record, \$\$ and resources considerable less for franchisor. Less risky. Add company unit: takes capital and management. Add new franchisee; finding the right people (recruitment systems). Add new unit to existing franchisees: least risk.

Benefits

- Franchisees: own their own business (making the day to day decisions yourself) operating under the franchisor brand, trademarks, marketing systems, successful methods of operation, advertising, training, management and assistance--opportunity to succeed as a business owner.
- Increased growth and a stronger brand
- Biz Dev Cycle--benefits of working together. Innovation: Franchisor brings marketing dept/corporate staff who identify new products and services. Franchisee by adjusting to changes of local market serve as a barometer of changing market conditions, which can lead to profitable system-wide production introductions. Quantification: Franchisor -- conducts market research--test and evaluate ideas. Orchestration: enhanced by multiple learning processes--system wide adaptation--ongoing process -- franchisees continue to study and evaluate

Miscellaneous

- In deciding between purchasing a franchise and starting a new business, perhaps the best place to begin is to ask yourself why you want to own a business. The answer you give may provide some insight into which path you should choose. (*CCH Business Owner's Toolkit, Franchise vs. New Business, Entrepreneur.com*)
 - You want to be your own boss. If your answer is that you want to own your own business because of the freedom it will bring you, you probably shouldn't buy a franchise. If you buy a franchise, the franchisor will dictate much of what you have to do, when you do it, and how you do it. You'll have far more control if you start your own business.
 - You have a business idea that you believe has a lot of promise. If you want to nurture an idea you have into full bloom, you probably shouldn't buy a franchise. You won't have much control or be given much of an opportunity to pursue your ideas (try telling McDonald's that their golden arches ought to be bright green). You may be better off starting your own business.
 - You want to make lots of money. If your answer is that you want to own your own business because of the financial opportunities it presents, you should look long and hard at a franchise. Franchises don't necessarily make more money than other types of businesses, but they do have higher success rates. Of course, you'll be paying for the higher success rate in the fees you'll be paying to the franchisor. You should look particularly hard at franchises if you don't have a great deal of hands-on experience running a business.
- Common Reasons Why Franchising Fails
 - Difficulty attracting qualified franchisees
 - Failure to provide adequate support
 - An unproven or unprofitable prototype

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- Lack of franchise communication systems
 - Complex or inadequate ops manuals
 - Lack of business and strategic planning
 - Entering oversaturated markets
 - Lack of quality control
 - Lack of effective compliance systems
 - Lack of experienced management
 - Inadequate training program
 - Unprofitable and unhappy franchisees
- Pros and Cons of Buying a Franchise
 - Are you looking for independence—to be your own boss? Do you want a satisfying lifestyle, more \$\$, success? Do you have a unique biz idea that you think has promise for success? Then owning a franchise probably is not for you. You'll want to start your own business so you can be free to develop your own concepts, brands, systems, etc.
 - Limited Creativity/Flexibility. Most franchise contracts have very explicit standards, allowing little or no alterations or additions to the brand, stifling any creativity on the part of the franchisee. You must use their system, follow their rules.
 - Established Brand and Customer Base. By far, the biggest advantage of buying into an established franchise is the strength of the brand and loyalty of its customers.
 - The Boss is you. As with owning any business that you own, you are in control of your destiny.
 - Reduced Risk. For all of these reasons, starting a franchise of an established brand often has less risk than starting a business from nothing.
 - With a franchise, you cannot operate the business however you want and must follow someone else's operational rules. If you are not comfortable with this, a franchise is not for you.
 - To begin with, if freedom and independence are important to you, then you probably need to be a solo entrepreneur. But if predictability and security are more important, then being a franchisee likely makes more sense. Here is why: An entrepreneur who starts a business from nothing runs the show. It is the entrepreneur's strategies and plans that count and the entrepreneur's ideas that will be implemented. That is precisely what some people want and why they start a business. On the other hand, a franchisee has far less autonomy in the day-to-day operations of the business. Franchisees must follow the system created by the franchisor; in fact, doing so is part of the franchise agreement.

Ideas (deleted from Corporate Development)

- Take a look at businesses around you. If you've bought a cup of coffee, put gas in your car, or eaten at a fast food restaurant you've visited a franchise organization. A new franchise business opens every 8 minutes of every business day. What will set you apart from the rest?
- To build a successful franchise you need a strong organizational foundation, and to expand the reach of that franchise it is essential to foster the entrepreneurial spirit in your franchisees—to give them the tools to build a business—not just own a job. These combined actions can create significant business results that are more powerful and greater reaching than what each of you are capable of individually.
- The successful franchisor must develop a sound franchising system—a proven brand backed by well documented operating systems that deliver the promise to the customer, leadership skills with which to communicate the vision, and the ability to market the business format.
- For the franchisor the key to success is expansion—growing the franchise in order to build their market share.