HOW TO
FRANCHISE

A BRIEF GUIDE TO THE BASICS OF FRANCHISING A BUSINESS

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Chapter 1 What is business format franchising?

Franchising is now big business. In the UK franchising has been part of the commercial landscape since 1965 and been adopted by many famous 'high street' brands in a wide and varied range of market sectors – retail, food & beverage, home services, property, health & fitness, domiciliary care, parcel delivery. We're all familiar with fast food chains such as McDonalds, Subway and Domino's but a myriad of recognized brands have based their business model on franchising or have now converted to franchising in order to reinvigorate performance.

The reasons are not difficult to understand. Franchising is a highly cost-effective strategy for expanding a business, requiring limited investment. This is because the operating assets and resources are the responsibility of an independent entity using your brand name, systems and processes – a franchisee. Also, because the franchisee assumes responsibility for managing their local branch, store or unit, there is no need for your business to create a large management and administrative team. Most significantly, the business will benefit from the drive and determination that only invested business owners provide.

How it works

Franchising is a highly dynamic partnership because the two parties involved have a vested interest in the success of the business. It works to great affect because the parties have 'ownership' and a dependency of each other.

Franchising involves the owner of a successful business (franchisor) granting the right to another person (franchisee), to set up and run an exact replica of that business in another defined area for a specific duration. The franchisee must use the franchisors' name (brand) and corporate style and would be given access to its business systems, documentation and methodologies to run their business. Usually, the franchisee will be a person(s) with the ambition of working for themselves, either as a limited company or sole trader, but in some cases existing companies may buy a franchise.

Fundamentally, franchising is a method of distribution. It's one of the systems that a company might use to make its product or service available to its consumers, whether that product or service is retailed from a store or delivered to a customer's home or business.

The financial merits

Franchising is a very cost-effective method for geographically scaling a business, regionally, nationally and globally. In a way it allows a business to set up a network of local branches, stores or units with minimal investment, apart from the initial funding needed to create the franchise system. That's because a franchisee pays you for the benefit of being trained and mentored by you to run the business, and they invest in all of the necessary assets and resources– premises, vehicles, equipment, staff. So, in effect, franchising is a cost neutral method of expanding a business – in fact, through the initial franchise fee you generate income by expanding!

On an ongoing basis, the support and guidance you provide to franchisees will be paid for from a management service fee, or royalty, that franchisees are charged. Typically, this will either be a percentage of the turnover, or in some cases it may be a fixed fee, usually paid monthly or weekly. Plus, you may receive income from supplying products, ingredients or materials to franchisees – in retail and restaurant businesses this is a very obvious mandatory requirement. Some franchisees operate an advertising levy to fund promotional developments and make a separate charge for accessing software. They may also receive supplementary income in the form of rebates or commission from approved suppliers for goods they retail to franchisees.

It's win:win

For an ambitious business owner, if set up properly, a franchise strategy means cost effective expansion. You monetise your knowledge and reputation from the initial franchise fee and, crucially, you don't have to invest in operating assets and resources. More importantly, your network would comprise a group of highly motivated business owners, acting the role of local 'managers', who are driven to maximise the performance of their business because they benefit from the profit it generates and its asset value. Standards of customer service and business growth will therefore almost always be much higher than could be achieved from a directly operated business.

For franchisees, buying a franchise provides a de-risked route to self-employment. Most people like the idea of being their own boss, to have more control over their destiny. But, their resolve to do something about it buckles when confronted with the potential risks, primarily the spectre of personal and financial failure. They may also lack commercial instinct or inspiration. Which is not surprising because starting a business from scratch is not for the faint hearted. However, what prospective franchisees don't lack is drive and determination. So, franchising provides the ideal compromise because it means budding entrepreneurs have the opportunity to run their own business with the 'blanket of security' that an established brand, system and mentoring team offers.

The benefit to a franchisee is that they are buying knowledge and able to set up their own business knowing it's been thoroughly proven (at least it should be!).

They have access to you and your team for advice, guidance and support, for which you get remunerated by charging the royalty or management service fee. So, providing the franchisee follows your advice and apply your methods, they should enjoy the same success you've achieved.

Mutual benefits that drive growth

Franchising is dynamic because it harnesses the power of vested interest. In the case of franchisees, they are motivated because they have the opportunity to run an already proven business, which means the risk of failure is considerably reduced. This is a big 'plus' point.

To provide evidence that franchising can be a success it is worth considering the business failure statistics. It has been well documented that after 3 years from the date of opening just half of independent start-up businesses are likely to still be operating, whereas the comparable record of franchised business is that 95% will be continuing to flourish.

Chapter 2 What it takes to franchise a business

Franchising is all about exploiting the merits of enterprise. As the owner of a successful business you fulfil your own ambition to expand by ‘partnering’ with people that are equally ambitious to run their own business. It can be very dynamic.

The focus of franchising involves a business owner creating a legal relationship with another party – a franchisee – who will be entrusted to use the brand and reputation of that business. This is something which will have taken the business owner a huge effort to build. So, one of the most important requirements when designing a franchise model is to ensure that the business is fully protected against a franchisee doing anything that might risk damaging its brand and integrity. You can’t rely on trust alone to provide this protection; you need a legal and monitoring framework that will effectively control the actions and behaviour of franchisees. Which is why a robust franchise agreement, comprehensive operations manual and centralised business systems are critical to an effective franchising strategy.

It is also important that the model is designed to breed consistency. It is consistency that underpins many successful brands, so it also follows that each franchisee operates their business, using your brand, in an identical manner. Which means the model must be prescriptive, with no allowance for any deviation from carefully crafted policies, processes and procedures.

For a business to successfully franchise it must be able to fulfil these criteria:

1. It must be is well proven

Does the business have a track record of success, with consistent growth? Can you show that the business has gained a position of respect and substance within the local market? Do you have defined operating systems and methodologies? Typically, the business should have been trading for at least 3 years before claiming to be proven, although it does depend on the sector in which it operates. If the business is still in its infancy and so has not developed its working methodologies then it may lack the necessary credibility to be franchised.

Franchise advisors are still approached by people with a 'great idea' that they want to franchise. However good that idea may be the advisors response should always be the same – run the business yourself for a set period, gather the evidence base and then assess its feasibility as a franchise. Only then could you potentially have something which others may be persuaded to invest in.

2. Intellectual property must be protected

If you don't own something then technically you cannot sell it. So, if you don't physically have ownership of the intellectual property that underpins your business you effectively could not charge a fee to grant the rights for another party (franchisee) to use that intellectual property. The most obvious issue is your trading name and style – have you registered it? Have you secured patents for any unique processes or technology the business uses? What about software copyright? The fact is that if you haven't fully protected your intellectual property you may be exposing your business to considerable risk. For example, if you haven't registered your trading name and logo style but someone else registers the same name, or one that's very similar, the consequences could be very damaging. A franchisee that paid a franchise fee for the rights to your name who finds another company in their territory using that name would be very upset, to say the least.

3. The business must have been systemised

A franchised business needs clearly defined processes and procedures that can be adopted by a franchisee. Every aspect of how the business works will need to be documented – in an Operations manual – to ensure that franchisees all apply the same business management methods that underpin your business. More importantly, key processes should be automated using software wherever possible in order to provide franchisees with efficient working practices and to establish tight control and reporting mechanisms for the franchisor.

4. Operation of the business must be easily taught

Will you be able to practically train an individual to operate the business in an identical way to how you operate the business? Training is a critical component of a franchise; the scope and style of how you pass on knowhow about the business will have a powerful influence over the performance of franchisees. Creating a training programme that effectively covers all aspects of the business in an informed, engaging manner is therefore essential. The training must also be capable of being completed within a sensible timescale. The period of training is one in which the franchisee will not be earning and so will need to be factored into the working capital requirement when they calculate the total investment to buy a franchise. If the business is so complex that it will need weeks or months to complete the necessary training then it's quite possible the franchise will be an unattractive investment. For this reason, the majority of franchisors design training courses to extend for a duration of no more than 4 weeks.

5. Consumer demand must be sustainable

Another important question that must be answered is whether, to the best of your knowledge, demand for your product or service is sustainable over the long term? More precisely, are you aware of any significant issues that might adversely change the pattern of demand in the future? Such issues may be of a technological, regulatory or cultural nature. If this is a likelihood, and you don't have a way of overcoming the impact on the business, franchising may not be an appropriate development strategy because it would be unfair to ask people to make a long term personal and financial commitment by investing in your franchise knowing the prospects of success are likely to be compromised. Whereas, if the consequences of impending change is expected to be favourable, then franchising could be highly relevant.

6. Effective marketing techniques must be available

Every prospective franchisee will ask the question "how will you help me get customers?" You need a good answer. They will expect you to have identified the most effective marketing techniques and tactics for driving up market share within the franchise territory from the outset. If your business has simply grown organically over several years' then this may not be a convincing approach for a franchisee – they may not be able to afford the same timescale to reach a profitable trading position. You must have a proven marketing strategy, based on a competitive proposition, that a franchisee could rely on to help quickly launch and develop his or her business.

7. A competitive edge

The success of any business will usually be determined by the sharpness of its competitive edge - the features that set it apart from other players in the market. Being the same as the competition may be sufficient to sustain a business but it will not be enough to grow at a faster rate, and secure a greater market share, than its competitors. However, from a franchising viewpoint there is another key reason why a competitive edge is crucial; it binds franchisees. A differentiating feature, such as the strength of the brand name, unique technology, dynamic software, creative marketing, efficient supply chain or powerful buying power, should provide genuine value to a franchisees business, to the extent that the absence of that feature would significantly impair its prospects for success. So, the ongoing value of a sharp competitive edge will be key to maintaining the loyalty and commitment of franchisees.

8. The business must be profitable.

It may seem obvious, but the business must enable both parties to make money. You will need to show that the business is capable of generating a level of profitability within a reasonable timescale that is likely to satisfy the type of person you want as a franchisee and that would provide a satisfactory return on the required investment. So, it is standard practice that you reveal your audited accounts, which should demonstrate a good profit is being generated. Based on these and the performance of a pilot franchise an indicative trading forecast can then be prepared that sets out a verifiable expectation of the earning potential of the franchise. And, franchising must make financial sense for your business. You must carefully work out how much it will cost to recruit, train and support franchisees so that the initial franchise fee and ongoing management service fees can be calculated with allowance for a reasonable profit.

9. A culture of trust

Trust is an implicit quality in a franchisor:franchisee relationship. Franchising involves delegating the responsibility for the local stewardship of your business to someone who would have made a significant personal and financial investment to benefit from the rewards that may be available. They would make the day to day decisions, within the parameters that you set out. You therefore have to trust that they will follow the procedures explained during the training and set out in your operations manual. Furthermore, if you prefer to control and dictate every aspect of how your business operates then franchising is unlikely to be a compatible expansion model. Franchisees enjoy a large amount of independence and although respectful of the brand and protocols, and the welcoming of the support you provide, will fiercely defend their right to make the day to day decisions.

10. Honesty and transparency

Your management culture needs to be one that is open and honest. You should not seek to hide material facts; easy access to information means it can always be found by a determined franchisee. The more effective a franchisor is at embracing franchisees and creating a team spirit with open communication the more successful the business will be for both parties.

Chapter 3 The advantages and disadvantages

As already mentioned, franchising is now well-established within the global economy. Service and retail businesses of all types have exploited franchising to successfully build a healthy share of their respective market sectors. There is no pre-defined 'type' or 'size' of business that could or should be franchised. The critical requirements are that the business should be proven, replicable and profitable.

In many cases, the dominant market players are franchised businesses and the reason for that is firmly based in the drive and commitment that franchisees provide. In a directly operated business employees can certainly be motivated to improve their performance but it is an undisputable fact that this will rarely match the consistent endeavour of a franchisee to fully maximise the local potential of your business. So, it's not really surprising that franchising is regarded as an increasingly attractive expansion model for ambitious business owners. After all, if you tick those 3 important boxes – proven, replicable, profitable – then how difficult can it be; charge a decent up-front fee to budding entrepreneurs, train them up then sit back and let their enthusiasm and drive build the business. Simple!

If only it was that easy!

The 'devil is always in the detail' and this is an anecdote that most definitely applies to franchising. Operating through a network of franchisees demands an entirely different management culture to a conventional business comprising directly employed or casual staff. This culture and its implications have to be fully understood by any prospective franchisor before a franchise is ever sold. There are many benefits to franchising but inevitably there are aspects to being franchised that don't always make it the right fit for a business.

Here are the main advantages of franchising:

1. Cost effective expansion: This has been highlighted in Chapter 1. Although it is necessary for the business owner to make an investment in creating a robust legal, operational and administrative infrastructure for a franchise system, and in franchisee recruitment and training, it is the case that franchising a business is a highly cost-effective method of expansion. By charging an initial franchise fee the business owner is selling the knowledge, expertise and brand reputation that's been built over time to other parties so that they can generate personal financial gain – earnings (investment yield) and resale value (capital/asset growth). The initial franchise fee is not all profit as it should cover the cost of recruiting the franchisee, training, a launch campaign, administration and possibly supply of stationery, staff uniforms. But, it means you establish a local branch/unit with no upfront or ongoing costs – the expenditure on premises, equipment, stock, vehicles, staff, marketing is the responsibility of the franchisee.

2. **Expansion can be faster.** The hunger and determination of a franchisee can help a business expand at a faster rate than through conventional approaches. A franchisee will push hard to find premises and source vans, equipment etc. More significantly, with the pressure of a bank loan and limits on available working capital, franchisees can be expected to do whatever it takes to get the business up and running as quickly as possible.

3. **Excellent customer service.** The benefits of franchising to customer service standards are unquestionable. I consider this to be a 'stand out' advantage of a franchised business. Franchisee are invested personally and financially in your brand – they'll be brand ambassadors – and so the quality of service customers receive from franchised businesses is almost certain to be better than a directly operated business could achieve. 'Normal working hours' don't apply, attention to detail with tasks such merchandising, health & safety, punctuality, administration will be precise and engagement with customers will consistently seek to impress. It will, however, be the responsibility of the franchisor to clearly define the minimum standards and to provide coaching aimed at teaching franchisees about the specific customer care practices that relate to the brand.

4. **Smaller organisation.** By delegating operational responsibility to franchisees a company that franchises does not require a large, multi-layered management and administration team. Franchisees should take control, providing tight management of local service delivery. As a result, although you will need a team to provide the support your franchisees will need – marketing, training, technical, research & development, auditing – it shouldn't be necessary to build an empire, with all of the complexities and cost that involves. Consequently, the business is far simpler to administer.

5. **You adopt a different role.** Depending on your current resources and on how you structure your franchise support team, it's inevitable that the function of the business will change. As the owner, unless you're able to delegate, you will have to transform to being a business facilitator and mentor. Your focus will be on channeling the direction and prosperity of your business through a network of franchisees. It's quite common for owners to set off by continuing to lead the current business while at the same time juggling the important task of giving guidance and support to franchisees. This can be quite demanding – they will have paid to have access to the knowledge you can provide. This isn't always an easy transformation but for most owners it can be highly invigorating, providing a welcome change of direction.

The merits of franchising are dynamic and it can be a game-changer. But there are some implications of franchising a business that need to be carefully considered.

1. **Control is diluted**. If by nature you are a 'control freak' then do not franchise. Franchisees must be granted a high degree of independence, free to make the day to day business decisions without interference, unless the resulting actions do not conform to the way of working you have prescribed. This obviously means you can't control in the manner you may have been used to, however a well-designed franchise model will provide as much control and visibility of franchisee operations as is reasonably possible. Key to this will be effective training/onboarding, a reporting system that provides real time information about financial performance, conformance with brand guideline and compliance with the prescribed service standards.

2. **You cannot dictate price**. This can sometimes be a deal breaker when a company is considering franchising. It is a condition of competition law that a franchisor does not impose retail prices on a franchisee, instead permitting them the freedom to determine prices that they consider to be reflective of the local marketplace. The franchisor may, however, set out the basis on which prices should be charged and, importantly, may set a maximum amount that may be charged. In practice, in many franchised businesses franchisees will follow the recommendations made by the franchisor but the implications of this requirement do need to be carefully considered.

3. **Enforcing changes may be slower.** It is inevitable that over time a franchisor will need to make changes to material features of the service, such as software, equipment and corporate identity. Under the terms of the franchise agreement franchisees will be contractually required to adopt any such change, however the timescale for implementation must be reasonable, particularly if it involves the franchisee spending money (which is usually the case). Allied to which, a franchisee will quite often demand a commercial rationale for why the change being proposed is necessary. If you think vans should now be blue and not red then franchisees will understandably want to understand the commercial benefit they should expect by spending to have their vans re-sprayed and liveried. So, when planning any change it will be necessary for a business case to be made that helps show franchisees the advantages, a process which may extend the time to complete any significant changes.

4. **Will you spawn competitors?** It's a common fear of business owners that franchisees will defect and set up in competition. They've had the training and benefit of your extensive knowledge and then simply wave goodbye and set up their own independent business. Well, there is indeed a risk that franchisees could become competitors, however the initial franchise fee acts as a form of deterrent against this happening and providing the franchise agreement has been correctly prepared the level of this risk will actually be minimal; the agreement should contain post termination restrictions to create obstacles that are very difficult to manoeuvre.

5. Emotional strain. Dealing with franchisees can throw up a number of challenges but liaising with those that are failing financially can be particularly harrowing. A franchisor should not offer any guarantee of the performance of their franchise, making clear that success is determined by the individual capability and endeavour of the franchisee. And, providing all franchisees are given an equitable opportunity and are not the beneficiary of any individual favouritism then the prospect of success being offered would be the same for each. But irrespective of how carefully you select your franchisees and the effort you devote to giving them support it is inevitable that the level of success will vary, with some not able to build a viable business. Some struggle to adapt to the isolation of self-employment, others will find the franchise too restricting and personal upheaval could take a toll on a franchisees business. Whatever the reason, helping a financially stricken franchisee can be very tricky, sometimes leading to acrimony and recrimination on both sides.

It's important to understand one key characteristic of a franchisee; typically, they are not high-risk takers. If they were truly entrepreneurial they would be self-starters, like you. A prospective franchisee is motivated by the rewards that running a business can provide but invariably they will demand bags of reassurance before making a commitment. They need to be convinced they could run the business, that there is strong customer demand and that it offers the chance to provide the earnings and lifestyle they seek?

Sharing verifiable, accurate information about the business and the market in which it operates is therefore critical to good franchising. You need to demonstrate how well proven your business, based on the performance and progress of both your business and a pilot franchise.

When first starting out on a franchising journey the performance of the existing business will obviously have a significant influence by showing what a franchisee might be able to achieve and interested candidates will inevitably interrogate that performance in some detail. They will be keen to understand the owners' personal experiences and challenges when building the business, both the good and bad, and inevitably will want to understand the financials - sales and profitability. You must not be reluctant to provide this information. Sharing your audited and published accounts will be expected, although a well-informed prospect may well have obtained these in advance.

However, a franchisor should be able to also demonstrate the following:

- There is a sustainable market for the product or service. You should ideally have market data available showing positive future buying trends.
- The business has a unique selling point or a distinct competitive advantage that can be effectively exploited to gain market share. Is the advantage a compelling one?
- The intellectual property of the business is properly protected e.g. trademark registered.
- Franchisees will operate in the same marketplace in which the businesses success has been developed, without restriction.
- The business has systematised its administrative procedures or understands the need to do this. Does it operate using a CRM system?
- The marketing methods for generating sales have proven effectiveness.
- The supply chain for core product or services needed for the business to function as required is stable and secure.
- There are no critical factors to success that a franchisee could not also achieve or gain access to e.g. accreditations, qualifications.
- The skills or attributes to operate the business are not beyond the reach of those a prospective franchisee would be reasonably expected to possess.
- It is a profitable business – a franchisee can make money and achieve a good return on investment over the duration of the franchise agreement.
- The business can be developed within the confines of the proposed franchise territory within a reasonable timescale.

Being able to respond positively to each of the above points would help provide the reassurance that a prospective franchisee seeks, revealing that you have a strong and saleable franchise. But, what still needs to be tested is that you have the capability to deliver your product or service via a network of franchisees. You may be able to show that you've done a brilliant job at building a successful business, but this doesn't mean that you will make a great franchisor, or that the structure of your franchise is one that would allow a franchisee to prosper. The recruitment, legal framework, training, support systems and management style should all be put to the test before you commit resources to a full-scale franchisee recruitment drive. This is where a pilot franchise comes in.

Operating a couple of pilot franchises for a period of time, usually for at least 12 months, is a critical part of the franchise development process.Usually, the first two or three franchisees appointed will be regarded as pilots, based on the understanding that some aspects of the model may still need finessing and that their contribution will be key to making improvements. As a result, it's quite normal for the franchise to be granted based on a concessionary deal, such as a discounted franchise fee, or the promise of enhanced support.

The piloting phase is also a key to helping a new franchisor understand some of the issues concerned with managing franchisees. Running a business with the involvement of franchisees is quite different to that of a directly managed business and so it can take some time for the owner and to fully adapt to a new collaborative management style. In effect, franchisees are business partners and need to be treated with a mutual level of respect.

Piloting provides the opportunity to test how robust your franchise model is. How the franchisees handle the technical and administrative aspects of the business will help highlight any issues with the training or process flows. The criteria you set for the size of your franchise territories will be validated. The efficiency of logistical and reporting systems will be revealed and, importantly, the accuracy of your trading projections will become evident. Accordingly, you will probably make changes to ensure that all of aspects of the model are able to function to effectively meet the requirements of both franchisee and franchisor.

Prospective franchisees will always want to see evidence of the trading performance of existing franchisees – this information is usually 'make or break' when it comes to a candidate deciding to buy the franchise. So, its usual that every effort is made to help ensure that pilot franchisees are successful. However, care needs to be taken to ensure that the level of support provided is not disproportionate to that which you intend to provide to other franchisees. For example, it could be misleading for a much higher investment to be made in launch marketing than is planned, by either franchisee or franchisor, as this will probably skew the trading forecast and expectations. By all means devote time for an intensive level of liaison and coaching as it's essential to the learning process but your handling of pilot franchisees does need to be representative of how you plan to operate the franchise when its fully up and running.

An initial phase of objectively running a few pilot franchises is critical to making sure you establish a robust franchise system. It will help you fully understand the operational and managerial dynamics and, importantly, to iron out any wrinkles in the design of the franchise model.

Chapter 5 Franchise agreements – key considerations

If you do decide that franchising is the right route to take to expand your business there is one document that is of vital importance – a franchise agreement.

By precisely setting out the Do's and Don'ts, it really does underpin the entire business relationship.In conjunction with your Operations Manual, the franchise agreement governs the franchisor/franchisee relationship. So, it must be relevant, unambiguous and comprehensive.

Obviously, you will need to appoint a lawyer to prepare the agreement. But not any lawyer – you will need one who is experienced in franchising. There are many commercial lawyers who might claim they can put a franchise agreement together but invariably it is a mistake not to use a specialist – one who fully understands the protocols and nuances of good franchising, and who is able to practically interpret your business and the requirements you have.

Before appointing a lawyer to prepare the franchise agreement you must therefore have a very clear idea about the issues that the franchise agreement has to accommodate - you need to be quite certain about how you expect franchisees to operate the business. You must get it right, because, once the agreement is signed, you and the franchisee will be committed to respective obligations, perhaps for 5, 10 or even 20 years.

If you have used a franchise development advisor such as Franchise Focus to help design and structure your franchise model, to include the preparation of a development plan, financial forecasts and support systems, it's probable that most of the primary legal issues will have been decided. They will probably also recommend a franchise lawyer, preferably one that is accredited by the British Franchise Association and would usually brief that lawyer and oversee the drafting process on your behalf.

Some of the key points to consider when specifying the key provisions of a franchise agreement are as follows:

1. **Legal entity of franchisees.** A business can operate as a sole trader, a partnership or a limited company. You must decide what form of trading entity you want your franchisees to adopt.

2. **Rights to be granted.** You must be absolutely precise about what rights you are granting to a franchisee. Is it to operate every aspect of your current business, or for a specific range of services or products that it offers? For example, some activities may be outside the scope of the agreement because of health & safety reasons or competency levels.

3. **Territory.** The agreement will specify the precise area in which the franchisee is entitled to operate the franchise. You therefore must have decided the basis for your franchise territories – geography, size, demographics etc. The territory must have the capacity to allow each franchisee equal opportunity develop the business to a viable level, in accordance with a realistic sales forecast. You do not want to make the territories too large because that will limit the number of franchises that you can sell. And they shouldn't be too small as this may limit a franchisees ability to build the business to a satisfactory level. See the next chapter for further information about franchise territory design.

4. **Term of agreement.** As indicated above, franchise agreements can have varying terms. 5 years is typical for owner-operator style franchises whereas high investment, premises-based franchises may grant a franchise for 10 or 20 years. The key determinate of the duration will be the time required to generate a good return on investment after any borrowings have been repaid.

5. **Renewal of the agreement**. It is usual for there to be a right to renew the agreement at the end of its first term. This may be dependent on there being no breaches of its terms and that all performance criteria are being met, within reason. You will however have to decide how many times you are prepared to renew – some franchisors insist on only one renewal, whereas others do not impose any restriction. Also, do you want to charge a renewal fee to cover administrative expenses? Some franchisors do, some don't.

6. **Fees.** The agreement must define all of the fees that are payable by the franchisee. This would include the initial franchise fee, the on-going management service fee, marketing levies and any additional payments for products or services.

7. **Respective obligations.** Quite importantly, the agreement will detail the obligations that each party has to each other. For you this will cover the type and scope of support you are going to provide to franchisees. The obligations of franchisees will usually be considerably more comprehensive, covering every aspect of the business – marketing, operational, administration, accounting, reporting, staffing, training, premises and vehicles.

8. **Premises.** If the business requires commercial premises then you must decide on how these are to be acquired. Do you want to own the head lease and sub-let to franchisees, or would you prefer that the franchisee leases, or owns, the premises? There are pro's and con's to both and careful consideration is needed. The acquisition of equipment may raise the same issues.

9. **Selling the business.** Usually, franchisees will have the right to sell the business. However, it is a standard condition that they may only sell to a candidate that the franchisor approves and on terms that the franchisor specifies. So, you need to have thought this through and be clear about these terms. For example, do you want a right of first refusal to buy the business?

10. **Termination.** Franchise agreements have a fixed term and so eventually will be terminated. This may be due to natural expiry, or it may be forced because the franchisee has breached the terms, either substantially or persistently without satisfactory remedy. Or, perhaps the franchisee has simply given up. Whatever the circumstances it is very important that the criteria and procedures for termination are clearly stated in the franchise agreement. Even more vital is that the agreement contains post termination provisions that seek to adequately protect your position, particularly with regard to use of the trademark, other intellectual property and customer data.

Franchise agreements are typically unilateral in nature. That is to say, they are written entirely with the interests of you, the franchisor, in mind. You are granting the rights to operate a business you've made a success, so it's logical that a franchise agreement is fully focused on protecting your interests.For the same reason franchise agreements should also be non-negotiable – you want every franchisee operating under precisely the same terms. It is very important that you avoid varying the agreement to satisfy the requests of individual franchisees, otherwise, you'll have major problems! The confusion that arises from franchisees having differing obligations can create a managerial nightmare.

When the franchise agreement is prepared you should aim to anticipate future developments as much as possible and an expert franchise solicitor will draft in a manner that provides as much flexibility as possible. It will,nevertheless, be inevitable that you periodically review and modify your franchise agreement so that it adequately reflects the current requirements of the business and prevailing market conditions. New franchisees would obviously be required to sign the most up to date version of the agreement, however, you cannot arbitrarily enforce a change in the terms of the agreement on existing franchisees, unless they agree to the change. If such a change is one that has little adverse consequences on the franchisee then they may accept it without any challenge, but they are not obliged to do so. In which case you may have to wait until the agreement is renewed, when the new agreement the franchisee is asked to sign would be the most current version; the one with all prior changes incorporated.

Getting the franchise agreement right is a must for any franchised business. So, investing in an experienced franchise development advisor and a specialist franchise lawyer is essential if your aim is to build a robust, sustainable and viable network of franchisees.

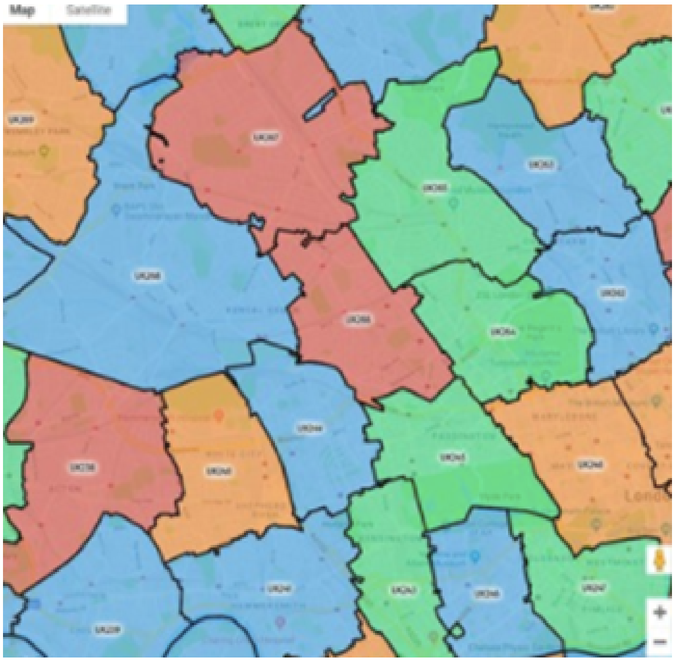
Chapter 6 Getting the design of franchise territories right.

One of the critical decisions that a prospective franchisor must make will concern the design of suitable franchise territories. Generally, there are three burning issues to confront;

1. How large should franchise territories be?
2. What criteria to use to create territories of equitable potential?
3. Should the territories be granted on an exclusive or non-exclusive basis?

A stable and sustainable franchise network is built on a system that permits both the franchisor and the franchise owners to maximise sales performance and profitability. Central to this will be carefully designed franchise territories. Which can be a bit tricky. You have to create enough territories to fully maximize your market share while also ensuring that the size of the territories is sufficient to allow the franchise owners to build their business to a level that is viable and justifies the investment they are required to make.

As an example, let's look at a domestic oven cleaning business. When designing the franchise territories the key criteria will probably be the number of households. You need to work out how many households will be required to enable the franchise owner to achieve full working capacity (number of jobs per week/month), crucially factoring in 1) the demand for professional oven cleaning services (X% per '000 households) and 2) a reasonable and validated market share target. All of which should be information that you've compiled from the existing business or pilot.



Lets' assume that to achieve the targeted annual turnover the number of jobs per van is 100 per month. If your research indicates there is a stable or predicted pattern of demand for oven cleaning services from approximately 12% of households, and if the anticipated market share target is 10%, the above formula would show that each territory needs 100,000 households. Therefore, for an owner-operator franchise model the UK should be divided up into 264 territories of equitable potential. (26.4m households in the UK). Or, if the model is a management franchise that presumes each business would have at least 5 vans the number of franchise territories would be 53.

There are however a variety of other considerations to take into account during the territory design process. Communication links, geography, demographics, marketing methodologies, market trends etc. It can be an intricate exercise and it's rarely a totally exact science – some prudent judgment will need to be applied. But it's so important to get it right because territories can be a frequent cause of franchisee conflict and litigation. The important thing is that working with your franchise advisor you are able to demonstrate a verifiable and consistent basis for franchise territories that each offer an equivalent potential for a franchise owner to be successful.

That would not imply that each franchisee should have the same level of success. Far from it. This will still vary depending on individual capabilities such as drive, determination, personality, industry etc.

There are specialist mapping companies that provide a great service for precisely plotting the boundaries of franchise territories, applying a number of different datasets to build equitable areas. We regularly advocate our clients to use them. However, you need to be absolutely certain about the criteria on which your territories must be based, otherwise you will create an impressive looking map that may be largely unusable and therefore waste a lot of money. As with any software, 'rubbish in' will result in 'rubbish out'! So, our advice would be to wait until you have fully completed your piloting stage, during which you would validate your base assumptions about the territory criteria, before investing in a territory mapping service.

Exclusive or non-exclusive?

The issue of exclusive and non-exclusive territories is a sensitive one. Referring back to the oven cleaning example above, if the business did operate an owner-operator franchise model it would be quite sensible for the territories to be granted on a non-exclusive basis. The reason is service continuity. Franchise owners cannot be expected to work 52 weeks a year and to not be absent due to occasional sickness. So, to ensure there is no disruption to service when franchisees are unavailable the franchisor may reserve the right to allocate work to a neighbouring franchisee, contractor or company employee. This is particularly relevant when the business has key account customers (those that want to buy your product/service from more than one franchisee) that impose strict service level agreements; the business simply cannot afford to be compromised by franchisees not being able to provide service to its key account customers.

Franchisees, and their solicitors, can get a bit uncomfortable about non-exclusivity but it should actually work for the franchise owner as much as the franchisor. For example, they can be reassured that their customers would still receive service when they are absent from the business.

Size matters!

An interesting, and slightly inevitable, situation that can arise is prospective franchise owners that are focused on 'land grab' – they want the largest territory possible, without thinking about the implications of serving that territory. It brings into focus an interesting conflict. To the franchise owner there is something understandably reassuring about having a large area in which to operate but the franchisor will not want to offer territories sized to provide more opportunity than is necessary. Otherwise, the maximum number of territories that can be sold could be restricted.

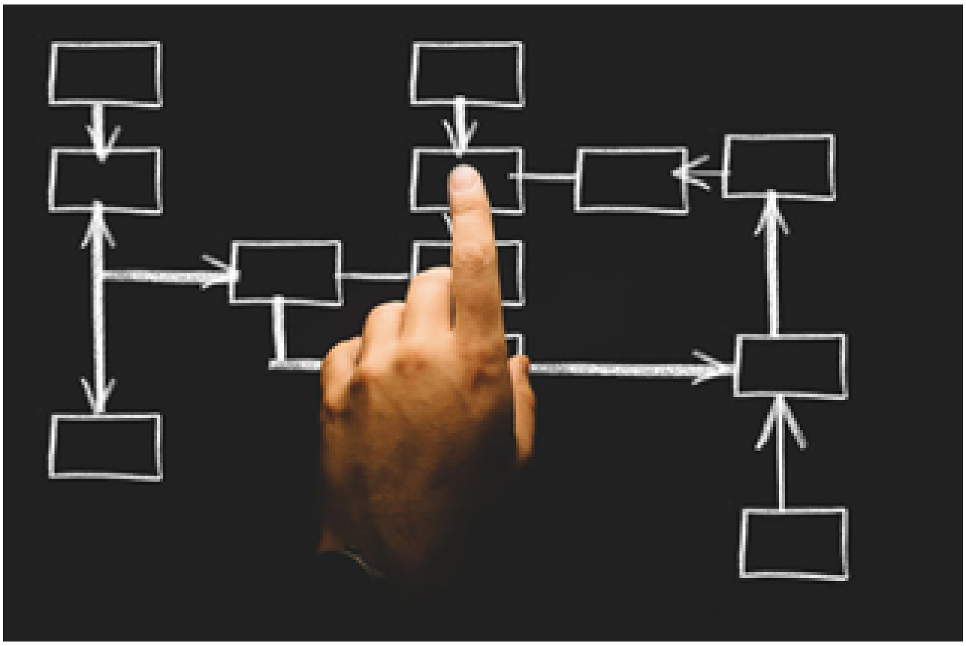
To a point this situation does differ between mobile service businesses and static, premises -based businesses. For the latter an important consideration is the risk of cannibalisation of sales where the protected territory is designed to support two or more units. This is a common format for many of fast food businesses – their models often expect franchise owners to be multi-unit operations. So, when it comes to territory design franchise owners will expect to see they are large enough to allow each additional unit to be established without taking sales from the existing one(s). Whereas, the franchisor could be more focused on maximizing market share and so may not be too concerned about the cannibalisation issue – they simply want to encourage revenue growth from management service fees and that could well be achieved by having a unit on every street corner.

In practice a balance has to be struck, one that creates the best overall situation for both the franchisees and the franchisor. Maximising total aggregate sales volume, while at the same time protecting individual unit profitability, creates a rising tide that lifts all 'boats' in the franchise system. Good franchisors are trying to achieve the highest market share and gross revenue possible, while also helping their franchise owners to maintain individual unit profitability at levels high enough to justify being part of the franchise network and the investment they've made.

Chapter 7 Preparing a Franchise Operations manual

Next to the franchise agreement a comprehensive and well-structured Operations Manual is the key 'must have' document of a franchise system. A franchise is all about the transfer of knowledge and experience to capable, self-motivated people so that they're able to successfully replicate an established and proven business model. The Operations Manual therefore should be the 'bible' – it has to detail every aspect of how to run the business in such a way that someone who hasn't run the business could refer to it and be able to do so.

Quite often a franchise Operations Manual will comprise a series of manuals – technical, administration, sales & marketing, health & safety etc. This may be simply for reasons of practicality but it does allow for emphasis to be placed on the primary business drivers.



A manual is good for franchisee and franchisor

Despite the Operations Manual being such an important document it will probably be the case that few franchisees will actually read it more than once, which will be when they're being trained. Which is not surprising – after all, how often do any of us study the manual of new TV or car from cover to cover?

The fact is that the Operations Manual is as much of a benefit to franchisor as it is to a franchisee. Here's why:

1. It systemises the business

If you expect franchisees to replicate your business then it must be 'packaged' into systems, with clear structure, that can be effectively copied. Every process must be carefully explained in unambiguous language and broken down into easy to follow steps. Mappingout your business in such detail can be quite a revealing exercise – it focuses the mind on specifying the practical actions that are proven to work and that you want your franchisees to take when operating the business you've created, using your brand and reputation.

In fact, it's not unusual for business owners to identify ways of improving the business further as a result of the forensic examination involved in the preparation of an Operations Manual.

2. It reinforces the training

By documenting each of the various processes and procedures that are fundamental to the operation and development of the business you will also be defining the content of the training that a franchisee will require. The Manual should be used as a reference source throughout the training course. I tend to issue the relevant section to the trainee franchisees as each training module is delivered, so the Manual builds as the course progresses.

3. It supports the franchise agreement

A franchise Operations Manual must aim to provide operational guidance. It is not a legal document, however it will usually be constructed to support the franchise agreement by cross referencing requirements that might change during the term of the agreement, to accommodate market conditions and evolving business strategies. For example, prices. The franchise agreement may make clear that a pricing policy must be observed but point to the specific maximum prices published in the Operations Manual, which may be changed from time to time.

An Operations Manual is therefore a 'live' document that should be regularly updated as the business grows so that the best current practice and guidance is provided. If designed and written correctly, the Operations Manual will be an integral part of the franchise agreement – the standards and procedures contained within will be as good as a clause in your agreement.

4. It helps impose discipline and control

One of the consequences of franchising is that you release some control over your business. You won't be responsible for the day to day running of the business in each locality, with the significant benefit of the reduced operational cost this offers, and so not able to dictate what can and cannot be done. However, when in conjunction with a robust reporting and auditing processes a good Operations Manual will still enable you to exert effective control over the activities of your franchisees. Their actions, behaviour and performance will be measured against the procedures and practices described in the Manual.

5. It adds strength to the value of the franchise

By spending the time to prepare a Franchise Operations Manual that comprehensively covers all business operations you are making a statement about the values of your business and your commitment to ensuring it is run in an efficient, professional manner that delivers a consistent standard of service. In effect it maps out the philosophy and style that have contributed to the success of the business.

For all of the above reasons a Franchise Operations Manual must be prepared as an original document. Usually businesses that are in the process of franchising will have a Business Operations Manual(s), or written policies and procedures that they think will be quite suitable as a franchise Operations Manual. It's certainly a big help, but rarely does it meet the requirements. To franchise work will need to be done on adapting and expanding so that it acts as a reliable, authoritative 'bible' about each and every process of the business.

Make it your Manual

It's also important that the Franchise Operations Manual is written for the business, and not simply a standard, generic template with a 'copy and paste' job done to exchange your company name with another. There will always be some aspects that are common to all businesses but it is vital that time and effort is put into compiling a Manual that is specific to your franchise.

Tips for creating a Manual

When it comes to writing a Franchise Operations Manual here are some tips that might come in useful:

- Use clear, unambiguous language. Try not to use 'techno-babble'.
- Divide the manual into sections that reflect the broad components of the business e.g. staffing, inventory and stock control, insurances, call handling, work scheduling, financial management, customer service, invoicing, marketing etc.
- Make sure you use common word processing software to create the manual
- Use flow-charts as much as possible – graphics tend to be more use-friendly than text
- Number the sections and then the pages within sections. For example, page 5 of section 8 would be 8.5.
- On each page include a footer that includes the date the page was last modified.
- Ensure that an update record is integrated at the beginning of the Manual.
- Make it interactive and searchable – available via a CD Rom or online. There is now no need to print a manual, it's much easier and secure to publish electronically, and also easier to update. Furthermore, an electronic manual is far more likely to be used by franchisees.
- Ensure that each page displays a copyright statement, with the © symbol. For example, '© [COMPANY NAME]. All rights reserved'. Putting this in the footer works best.

You will know all there is about your business and so the content of the Franchise Operations Manual will have to come from you and your team. But you may not be the best person to create it. An experienced franchise manual writer will understand the best format and style and importantly will ensure that it integrates correctly with the franchise agreement. You also may not have the time needed to undertake this important task.

In most franchise development projects the drafting of the Operations Manual tends to be one of the most time-consuming tasks, particularly as it is the business owner or team that have to provide the content while at the same time being immersed in dealing with the day to day demands of running the business. A franchise development advisor may guide and direct the drafting work (we do for our clients), and will probably contribute generic content if relevant, but unless or until the processes and procedures on which the business operates are fully documented you will not be in a position to franchise your business.

Chapter 8 Recruiting franchisees

Adopting the right approach to the recruitment of franchisees is so important to the success of your business. Franchisees are its ‘customer facing’ side, so they must be carefully selected based on clearly defined criteria. Their background, experience, attitude, personality, skills and personal circumstances are all critical considerations and each of these must be examined as part of the process of deciding who you want to appoint as one your franchisees. Get this right and franchising will help create a tremendously dynamic and exciting business, get it wrong and franchising will be laboured, damaging and costly.

One of the most important rules about franchisee recruitment is that you do not sell franchises, you grant the right! Selling implies that the focus is simply on striking the deal, and more specifically on banking a chunky franchise fee, irrespective of the capability and motivation of the buyer. The franchise fee income is obviously welcome, and may even be necessary, but the long term nature of a franchisor:franchisee relationship is a key reason why a careless attitude to recruiting franchisees is ill-advised. The simple fact is that the time and effort expended on an unsuitable franchisee will invariably far outweigh the income you received from the initial franchise fee they paid.

There are some other key tips about recruiting franchisees

1. **Have a precise profile of the ideal candidate.** Know exactly the type of person who you want to represent your business – the ‘must have’ attributes. What experience, character, qualifications, skills, personal circumstances are required? Psychometric testing is worth considering. Once set, always measure candidates against the profile, with minimal compromise.

2. **Include spouses/partners.** Always include a candidates’ spouse/partner in the interview process. After all, the decision to buy will be a joint one and it’s a fact that having family support available is important to the task of building a successful business.

3. **Require candidates to qualify**. The recruitment process should involve a series of steps, each demanding that the candidate demonstrates the resources, ability and determination to qualify to run your franchise. You should expect that candidates will devote time to research and due diligence, and to being open in sharing information with you. If they don't follow that process then you might question how likely it is that they'll conform to your system.

4. **Set a sensible target.** You obviously need to have a franchise sales target but don't set the bar too high. Recognise that it's better to allow yourself the time to find good franchisees rather than become a hostage to an over-ambitious target – you'll end up appointing inadequate franchisees.

5. **Digital marketing is key.** Effective franchisee recruitment is now all about the application of digital marketing techniques. If you think the 'old school' process of simply generating a volume of leads and hoping to close as many as possible with bubbly sales 'patter' will be effective then you need to think again. A well-structured recruitment strategy has to be integrated, coordinated and 'digitally savvy'. It must:

- Articulate a clear value proposition for the franchise opportunity
- Be precisely targeted at a defined audience – individuals who are a best match to your franchisee profile.
- Complement and be integrated with your consumer brand strategy.
- Focus on digital lead generation tactics – web site links, SEO, PPC, re-marketing, social media, YouTube.
- Use engaging, persuasive and relevant content – written and graphic - tailored to each digital medium, avoiding hyperbole and exaggeration
- Generate content on a consistent basis – but make it informative, authoritative and relevant!
- Use a CRM program that automates the follow-up process to ensure effective engagement with prospects.
- Make use of technology to improve accessibility and efficiency. For example, thanks to the lockdown, video meetings have now become widely accepted, not just in business life. So, use them for Discovery and follow-up meetings.

6. **An automated follow-up is critical.** A systematic enquiry management process is vitally important to the design of an effective franchisee recruitment strategy. Thanks to the internet, candidates do their research into the franchises they are interested in well in advance of making an enquiry. They're well-informed and so to provide the best chance of effectively engaging with them your CRM software must be configured to deliver a carefully sequenced messaging campaign that informs with relevance and the right frequency. Typically, this will use a combination of email, SMS and phone calls. Furthermore, buyers often want to feel in control of the contact process. Simply making follow-up phone calls doesn't cut it today; many people refuse to answer calls from a number they don't recognise. So, it's important that you've designed recruitment techniques that communicate with candidates on their terms and in a manner that overcomes the barriers that they will naturally create.

7. Adopt a thorough and consistent process. You must follow a systematic process that allows both parties sufficient time to conduct their due diligence. To reiterate, you are granting the right to another person, or company, to use your experience, expertise, know-how and brand. So, you should be as keen to get a full understanding of a prospective franchisee's capabilities and motivation as they are to understand how your franchise works and the rewards it offers. The process is not one that should be rushed.

8. Be careful to not mislead. It pays to be understated in your dealings with someone enquiring about your franchise. There is a natural tendency to highlight the positives and downplay the negatives when in 'promotional' mode, particularly if the candidate is one that you feel is well suited to the franchise. But, a franchise sale is usually one that involves a substantial financial investment being made and so you are bound by protocols regarding honesty and transparency. The key issue in this regard relates to clarity about investment and earnings. Particular care must be taken not to exaggerate trading and income potential and an accurate appraisal is essential. If the unembellished facts about the business aren't sufficiently compelling then franchising may be too early, or possibly unwise. Full disclosure of all material facts about the business and the franchise is best practice – we prepare a document titled a Franchise Information Memorandum which fulfils this purpose for our clients. Chapter 9 provides more information about disclosure during the franchisee recruitment process.

Interest in franchising continues to grow. According to the 2018 BFA/Natwest Franchise survey there are nearly 48,600 people in the UK that own a franchise and as the spirit of enterprise remains a focal point of the economy it is confidently expected that this number will increase. Not surprisingly, there was a reduction in interest in franchise opportunities during the recent Covid-19 lockdown period. Uncertainty about the future does tend to sap confidence in making the type of big decision that buying a franchise involves, however, interest is always likely to be buoyant to varying degrees. Interestingly, recessions are good periods for recruiting franchisees as the pool in which franchisors fish for franchisees becomes well stocked by those finding themselves unemployed. A 'silver lining' of a recessionary cloud!

How this heightened interest translates into sales will depend on a number of factors, such as the amount of redundancy money available, house and equity values, the capacity of the banks to step up and provide funding and on the effectiveness of each franchisors' recruitment system.

Chapter 9 Disclosure – how much should franchisors reveal?

Franchising in the UK has the advantage of not being burdened with onerous franchise specific legislation. Unlike many countries we have successfully adopted a system of self-regulation, effectively overseen by the British Franchise Association.

However, a downside of this situation is that there is no mandatory requirement for franchisors to make formal disclosure about their business to prospective franchisees. Publishing a Franchise Information Memorandum, or Prospectus, with full disclosure of material facts to substantiate the pedigree and providence of the franchise model, is considered good practice, but not a 'must have'.

It should be. We suggest that serious franchisors should have prepared a Prospectus that provides the material facts about the business. Good franchising is built on trust and so it follows that there really shouldn't be anything hidden from those people who are being encouraged to invest their hard-earned money in a franchise.

Being open and honest actually works in your favour. It demonstrates respect and trust. If you've got something to hide that might undermine the ability of a potential franchisee to build their business then it's almost certain that you're not ready to franchise. And there's actually little point trying to hide material facts because the internet makes it so much easier for candidates to obtain information about companies. In which case, you'll be found out and so likely to end up being viewed as untrustworthy and lose their interest anyway.

So, a well-structured franchisee recruitment process should include a carefully prepared Prospectus that helps provide candidates with a thorough and unambiguous understanding of the background, organisation, values, structure, finances and potential of the franchise. Typically, the Prospectus should include:

- Company history – insight into its formation and key milestones in its development. Make a statement about the company values.
- Management team – the key personnel and their experience
- Company financial health – key data about the turnover and profits that the company has generated. You may choose to include the latest audited accounts.
- Investment and fees – detail the investment profile of the franchise and declare all fees payable.
- Intellectual property rights – summarise the position regarding ownership of trademarks, software licences, patents
- Market conditions – information about the marketplace in which the business operates and its respective position – market share, unique selling point.
- Current franchise network – list the current franchisees and declare information about those exiting and the reasons. Include details of any company outlets
- Obligations – a summary of the respective contractual obligations of both franchisor and franchisee.
- Product supply – detail the arrangements regarding the supply of products and services to franchisees
- Restrictions – clarify the precise scope of the rights that the franchisee is being granted, making clear any restrictions that must be observed.
- Territories – explain the structure of the territories being granted. Is it exclusive or non-exclusive?
- Litigation – if you have any on-going litigation with a franchisee it is advisable to declare this.
- Support – summarise the support that is available to franchisees
- Renewal of agreement policy – what is the position at the end of the franchise term?
- Financial projections – provide a validated illustrative business plan to demonstrate the potential of the business, making it clear that no guarantee of performance is offered. Make sure an explanation about the basis of the data is included.

The fact is that candidates are now much better prepared when evaluating a franchise opportunity. Therefore, most prospective franchisees will ask questions about all of the above issues anyway. So, it's better to have pre-empted them and a Prospectus is the ideal way of doing so.

Chapter 10 How to support franchisees

To create a successful franchise a franchisor should retain an on-going interest in the performance of its franchisees. Good franchisors guide, mentor and facilitate - they recognise that fundamentally their role is to help their franchisees to run their business as effectively as possible. They do not seek to directly involve themselves in the running of a franchisees business, unless extreme circumstances dictate that is necessary; the franchisee must apply the training and instruction you provide and be free to operate their business as they see fit.

A franchisor will however be required to provide support to its franchisees– it is this support that that the management service fee, or royalty,will pay for. Typically, franchise support will focus on specialist functions that the franchisor is better resourced to handle centrally than a franchisee could handle individually. For example, preparing marketing strategy, material and campaigns, managing a corporate web site, and conducting research & development. In some cases, the franchisor may operate a call centre for the central handling of customer calls and may provide a central system for processing customer payments. A responsible franchisor will act as the 'eyes and ears' of the business by ensuring that franchisees are kept regularly informed about key issues affecting the business – legislative changes, product updates, new opportunities.

Perhaps inevitably, it is marketing support that franchisees tend to be particularly focused on. Help with getting customers is an obvious priority and although franchisees will carry responsibility for the promotional activity that will drive sales they will expect the franchisor to be creating the marketing strategy, campaigns and materials. So, a franchisor does need to be regularly reviewing its promotional tactics to help the business maintain a sharp competitive edge. This will involve refreshing the design of material, testing different techniques and devising sales promotion initiatives for the franchisees to adopt. Basically, it is the franchisors' job to provide franchisees with the best 'tools' available to build and maintain a successful business.

Regular performance reviews are critical

A good franchise agreement will protect the franchisors intellectual property and its use by franchisees. Therefore, having robust processes that record individual behaviour and conformance is critical to a well-run franchise. As is having structured procedures contained in the Operations manual that explain the consequences of any non-conformance or failure to perform. Central to the task of measuring conformance will be the use of regular review meetings with franchisees during which performance will be measured against 1) the KPI's set out in the franchise agreement and 2) the business plan – a key discipline is that franchisees are required to prepare and submit a business plan setting out a trading budget and an action plan.

Demonstrate value

The most significant challenge that a franchisor faces is to guard against complacency. It is easy to fall into the trap of assuming that once signed up and trained all your franchisees require is some regular contact and you can sit back and enjoy the fee/ royalty income. Every network of franchisees is likely to comprise a varied group of personalities and while some may choose to keep a low-profile, others will be very demanding of your time. It is of course inevitable that the amount of time a franchisor needs to devote to engaging with its franchisees diminishes over time. In the first few weeks and months regular contact is essential but as franchisees become more confident and established the guidance you provide may have limited relevance.

Nevertheless, a conscientious franchisor will be aware that consistently finding ways of demonstrating value to its franchisees is a key responsibility. Growing awareness of the brand should be a key part of this but it's important to the integrity of a franchise that franchisees can see that the ongoing management service fee or royalty is providing a discernible benefit to their business. In the absence of this value being obvious franchisee unrest may arise, with the possibility of defections and potential legal complications.

Franchise networks are communities

A good franchise functions as a community. It is the franchisors role to build a community spirit. A network of franchisees will grow to become a group with a varied mix of skills, capabilities and vision, however each and every franchisee has a shared interest and focused on very similar goals and aspirations. So, engagement with and between franchisees is an essential ingredient of a well-run franchise. Typical things that work well would be:

- Creating a discussion forum, such as an intranet or WhatsApp/Facebook group to allow franchisees to communicate, share ideas and experiences. This can be invaluable for new franchisees.

- Arranging seminars and conferences, to help with connectivity and for presenting and discussing developments.

- Working groups. To get 'buy-in' it's so important to involve franchisees in strategy, policy, R&D and problem-solving. Setting up working groups of franchisees for this purpose can be very effective to implementing change and new initiatives.

- Arranging webinars or online discussions on key topics to address current issues or provide refresher training.

• Newsletters. Circulating a regular update, either weekly or monthly, will obviously help franchisees feel involved and informed.

• Awards and incentives. Most franchisors introduce an element of competition amongst their franchisees and reward achievement. Care in the design of such schemes is necessary but they can be very motivating.

Establishing a culture of mutual trust is crucial to a robust franchised business. Effective communication is key to the success of most organisations and a well-structured and consistent franchisee engagement plan will prove to be invaluable in engendering a positive culture within a franchise network.

Chapter 11 Why franchise?

To sum up, why should a business franchise to expand? The reasons basically revolve around 3 issues – time, people and money!

TIME – because for a relatively small business expansion by franchising can be faster. Franchisees will do a lot of the work to set up a local operation they're going to own, saving you time that you may not have if you'd decide to build your own network.

PEOPLE – there are huge benefits to be gained by having the local branches of your business run by motivated owners. Franchisees will go the 'extra mile' to deliver first class service and, depending on their drive and ambition, will keep focused on building their business. It's no surprise that 9 times out of 10 a franchised operation will out-perform a company-owned operation in terms of sales growth, revenue per customer and customer service ratings.

MONEY – When you franchise you effectively use someone else's money to expand. You'll need capital to initially fund the development and launch of the franchise model – advisory fees, legal fees, recruitment marketing – but this will often be fully recovered from the fees secured from the first couple of franchise sales. Then, expansion should be cost neutral – the on-going cost of recruiting and setting franchises up will be covered by franchise fee income. The franchisee pays for premises, equipment, staff, local marketing, not you!

At the heart of any sound franchise operation is the transfer of knowledge and experience. Franchisors train ambitious, self-motivated people who have the drive and determination to succeed in running their own business to operate a replica of the successful business they have created, using precisely the same brand, systems, marketing and techniques that have contributed to that success.

The mantra of franchising could be described as 'Do as I have done, in the way that I do it, and you should achieve similar rewards'. Of course, rarely, if at all, will a franchisor offer a guarantee of those rewards because each of the appointed franchisees will have different capabilities, attributes and ambition. But, a robust, proven franchise should offer its franchisees an equal opportunity to replicate a track record of success.

In an ideal world franchisors would build their networks by cloning the best performing franchisees. The inevitable reality is that all franchise networks comprise business owners with varying levels of success but good franchisee selection should mean that the gap between the top and bottom of the 'franchisee performance league' is a narrow one.

Franchising can be a great way to maximise the performance of a business. The sales drive that individual business owners – franchisees - provide can be a real game-changer and a franchised business will create wealth for all involved and the economy as a whole. But, franchising will only be effective if the model is built on carefully laid foundations. Adopting the right systems to effectively 'manage' the activities of franchise partners is key to making it work. Of even greater importance is establishing a culture of trust, respect and co-operation. Only with that in place will the real benefits emerge.

About Franchise Focus

Franchise Focus specialises in providing franchise development advisory services. Comprising a small team with extensive experience of managing franchised businesses it offers qualified advice and support designed to help aspiring, emerging and established franchisors to maximise the benefits that franchising offers.

Our franchise development experience covers a variety of market sectors – repair & maintenance services, domiciliary care, children's activities, food & beverage, health & fitness and property services. We advise clients with regard to expansion both in the UK and internationally and represent overseas businesses seeking assistance with launching in the UK.

For further information about how we could assist your business please get in touch.

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