The 5 key factors to consider before becoming a franchisor

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Our team is frequently consulted by entrepreneurs asking the following question:
we want to franchise our business concept, so where do we start?

One of the most common scenarios involves a very enthusiastic customer approaching the owner of a new business concept with some local success (such as a restaurant) and offering to buy a franchise. It is quite common for the business owner to quickly accept this offer in hopes of becoming the next Subway.

Unfortunately, many entrepreneurs do not realize that successfully running one or two locations requires very different skills and abilities than those required to develop a franchise network.

So, rather than becoming the next Fred Deluca, they are soon faced with challenges resulting from the poor choice of franchisees, inefficient locations, an ineffective supply system and the inability to maintain a uniform concept with the few franchisees they have managed to recruit. As a result, one or more franchisees will most likely stop paying their royalties, close their doors and, guess what – blame the franchisor for the losses incurred.

Having represented several franchisors over the past 15 years, we recommend that entrepreneurs pursue the franchise business model only if they are able to meet the following criteria:

1. The concept is viable and the business model is profitable

The fact that one location is generating a profit does not guarantee that the concept is viable or that the business model is profitable. In order to be able to draw such conclusions, we strongly recommend that entrepreneurs run at least two, or ideally three, corporate branches (regardless of concept type) in different markets for a period of at least 18 months.

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2. The concept and business model can be replicated

Ideal demographics and geographic locations, supply costs (or sources), elements that may be difficult to replicate and even the unique expertise or charisma of the founder are all factors that influence the success of a business concept and should be taken into consideration before developing a franchise network. The franchisor must have a business concept that a qualified franchisee can operate without being in the same shoes as the franchisor.

New franchisees, who will have different business experience than the founder in most cases and whose franchises will be located in different markets than the original, must still be able to easily replicate the franchisor's concept with the same success by following the system that the franchisor carefully laid out in advance.

3. Recruiting franchisees is actually possible

Wanting to sell franchises is an admirable goal, but there must also be a sufficient pool of candidates who meet the franchisor's selection criteria.

For example, franchising a shoe repair shop might seem like a good idea, in order to standardize customer service and modernize the environment in which this type of service is offered. Nevertheless, using the same example, it is important to determine whether there are enough candidates in the trade to consider developing a franchise network in the industry and to ensure that some shoemakers are ready and willing to convert their current businesses to franchises and continue operating under the branding of a third party.

4. The franchisor's team has sufficient resources to properly train and support the franchisees

Our team was recently called upon to resolve a franchisor-franchisee dispute that perfectly illustrates the issues that can arise from a lack of experience or resources on the part of the franchisor.

The franchisor fell victim to the enthusiasm of many prospective franchisees for its seemingly viable concept and profitable business model and collapsed shortly after starting its franchising operations. After franchising some 20 businesses in a short period of time, the lack of support from the franchisor in choosing locations and layout, a poor understanding of key industry performance indicators, a flawed supply system and incomplete initial training of franchisees led to the collapse of the network.

Even if it means slowing down the pace of development, franchisors must ensure that they have sufficient infrastructure in place to support the growth of the network. Poor choices made while developing a franchise network can have negative effects for several years, not to mention the impact these choices can have on the future success of the franchisor.

5. The franchisor has sufficient financial resources

Developing a franchise network in accordance with the above recommendations requires excellent capitalization. The initial franchise fees and royalty payments from the first franchisees are not enough for the franchisor to cover the development of sufficient infrastructure to ensure the viability of the network. The vast majority of franchisors who have challenged this basic rule are now facing serious difficulties.