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Accounting talk

How to Franchise a Business

By Mark Rose
SHARE

An increasing number of companies ready for expansion are beginning to realise the awesome potential of franchising.

Franchising is the correct approach to expansion as a network of motivated owner-operators speeds up the process and reduces risk. But while franchising has the potential to turbo-charge growth, it brings with it its own set of risks. This article explains what it takes to franchise your business successfully.

As soon as these questions can be answered satisfactorily you are ready to franchise your business. This begs the question: why should you bother?

Advantages of Franchising

When a business is ready for expansion, the establishment of branches is the most widely considered option. Unfortunately, this requires a huge capital outlay and trading results achieved through manager-operated branches are rarely satisfactory. By expanding via the franchise model, you have dedicated owner-operators who put up the necessary capital and take full operational responsibility.

This speeds up expansion and helps to gain market share much quicker than may otherwise be possible. The resulting economies of scale will accelerate growth even more. By the same token, to roll out a franchise without having the necessary infrastructure in place can quite easily turn into an unmitigated disaster; it can even destroy the brand.

Essential Preparations

The first step is the setting of the strategic direction. This requires the drafting of a Franchise Plan, essentially a business plan for the franchise operation.

Next, piloting must take place. This is absolutely necessary; if the business is new, it should extend over a period of 12 to18 months while established businesses can complete the process within four to six months. Feedback obtained from piloting will help optimise the product range and perfect processes, systems and procedures. It will also facilitate the development of the franchisee profile.

The creation of the franchise package follows. It consists of the operations manual, the franchise agreement and the disclosure document. A detailed country development plan and franchise marketing materials must also be developed.

During this phase of the project, assistance by experienced franchise practitioners is invaluable. An experienced consultant will guide you through the entire process and provide the necessary documentation. Good consultants don’t come cheap – budget for between R400 000 and R500 000

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– but involving one ensures that the package will stand up to scrutiny, not only in the marketplace but also against possible challenges under the current legislation.

Implementation Phase

At this critical juncture, patience is required. Accepting unsuitable individuals as franchisees just because they can support the required investment is the most common mistake new franchisors make. The other mistake is growing too fast too soon. It is much better to start slowly by attracting the right individuals and guiding them towards success. As soon as two to three franchisees are beginning to make money, the pace of expansion can – and in fact should – be stepped up drastically. This will help to achieve economies of scale and make the franchise operation profitable.

Reaping the Rewards

Provided that sound foundations have been laid in the beginning, there is absolutely no reason why a franchise network shouldn't be ready for international expansion within five to seven years after start-up. Depending on the distances involved, international expansion can take the form of direct franchising or master licence arrangements. In addition to our neighbouring countries, where South African brands are highly respected, the rest of Africa and indeed the entire
English-speaking world beckon. Are you up to it?

12 Critical Success Factors

Franchising is a very flexible concept.
It can be adapted to the needs of many different industry sectors and product groups but this does not mean that every business can – or should – be franchised. Here are the 12 critical success factors in condensed format:

- Does the business operate in a large and growing market?
- Is the growth in the market likely to be sustainable?
- Are margins attainable by franchisees sufficient to pay franchise fees and still stay competitive and profitable?
- Can the product or service demand a price premium?
- Does the franchisor have access to sufficient development capital?
- Does the potential exist to establish a memorable brand?
- Is there a substantial barrier to entry?
- Will the franchise development costs allow adequate returns for the franchisor?
- Is it possible to grow a franchise culture in the company?
- Does the concept have staying power?
- Is it relatively easy to train new franchisees?

Are adequate systems and procedures in place?