Succeeding as a Franchisor

By Edward (Ned) Levitt*

In my years of practicing franchise law, I have seen many franchisors come and go. I have seen passionate ambition crushed by the need for planning and humdrum detail. I have seen greed trump wisdom and I have seen gross miscalculations about the amount of capital needed to grow a franchise system and when it will become profitable. As is the case for any business, failures in establishing a franchise system outnumber successes. But why is this and how could it be different?

The success of a franchise system and the contentment of the franchisees in the system are very much a product of the character, strengths and weaknesses of the franchisor. A franchisor, to be successful, has to become an expert in the business of franchising, as well as the business being franchised. All too often, a new franchisor, even with a successful original business, fails to take the time to learn what franchising is all about, other than having the necessary agreements and disclosure documents drafted. Some simply assume that they can grow a franchise system by hiring an experienced direct of franchising.

Conversely, one of the most dangerous types of franchisor, is the one that is learning about the original business along with its franchisees. Having a well-defined and effective business model is crucial to succeeding as a franchisor. This may result in the need to postpone the launch of the franchise system until the original business has been "road tested" for a longer period of time. Even if the original business is a proven one, but not easily replicable or able to be run successfully by franchisees, then the new franchisor may want to spend time modifying the original business to be more "franchise friendly" before expanding as a franchise system.

Even though franchising is one method, among many, for financing the growth of a business, it is necessary to "prime the pump". Many franchisors have failed by assuming that they can finance all of the start-up costs for a franchise system with the front-end franchise fees from the first few franchisees. Big mistake! This is because there are certain costs in starting a franchise system, i.e. legal documentation, operations manual, marketing campaigns, building plans, etc., that need to be funded by unencumbered and uncommitted capital. The front-end franchise fee is, at best, compensatory to the franchisor for what is given by the franchisor to the individual franchisee, i.e. training, sight/territorial selection, lease negotiations, construction assistance, management assistance, etc. This tends to leave nothing left over for the franchisor to finance the establishment of the system.

Premature elation, is a problem for many new franchisors, as they expect to be profitable with the first few franchised locations. Nothing could be further from the truth. It takes a number of operating franchised units paying a sufficient amount of royalties to cover the head office costs necessary to support the franchisees in their growth to profitability. Profit for the franchisor takes time to cultivate, unless corners are cut.

Control freaks beware! Franchisees are not employees, they are investors and independent contractors; they cannot be fired! Moving from the owner of a business to being the franchisor of that business is a definite and substantial career change. It requires most businesspeople to acquire new skills like those of an educator, politician, marketing executive, supply chain operator and, sometimes, psychotherapist.

Ultimately, to be successful, the franchisor has to establish credibility with the franchisees and become their true leader. But that does not mean becoming a buddy to their franchisees or guaranteeing their franchisee's success. Even more importantly, it does not mean becoming a push over, indecisive or weak. I have witnessed the erosion of power to lead simply by the franchisor not taking strong and decisive action when faced with rebellious conduct by a franchisee. It is not uncommon to hear from franchisees that they are upset that their franchisor did not take action quickly enough to bring an errant franchisee into line.

The successful franchisors know that they succeed only when their franchisees succeed. So, the more the franchisor expends time, energy and resources to help their franchisees achieve their financial goals, the more the franchisor secures their own success. And it is not enough for the franchisor to just do these things; they should ensure that the franchisees know what was done for them.

Finally, effective franchisors are effective communicators. So many problems can be avoided if franchisors really understand their franchisee's fears, concerns and ideas. The only way to truly be heard is to listen.

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