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# Hospitalitynews MIDDLE EAST

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# THE BENEFITS AND CHALLENGES OF FRANCHISING YOUR BUSINESS

The franchise model has grown exponentially in the last few years, becoming the main route for many entrepreneurs wanting to expand their brands. **Nada Alameddine**, managing partner at Hodema consulting services, lists the various factors business owners should evaluate before they sign up to a franchise agreement.

Although franchising is considered to be one of the best growth options, it may actually not be the right decision for all companies. Here's an overview of the pros and cons, as well as advice on how to expand your business while avoiding the franchise pitfalls.

### Speed of growth

Access to capital and loans to fund growth can be a challenge, so franchising is an appealing option since you benefit from using the capital of your franchisee without getting into debt. However, franchising a brand doesn't come at zero cost, although it is far lower than opening a company-owned location. After receiving the initial payment defined in the franchise agreement, you receive a share of the sales revenue on a monthly basis, making it a cost-effective route to developing your business. Hence, the franchisee takes all the investment and debt risk.

Opening a new outlet takes time and plenty of energy. Finding the money, selecting the location, hiring and training staff, as well as other formalities, can take several months. If you don't open quickly enough in some industries, you face the risk of being outperformed by competition. Replicating your business model by using a franchisee's knowledge of an area, its regulations and its target clientele is a way to secure a position in the market at relative speed. In addition, the franchisee handles all the red tape, equipment and set-up costs.

### Staffing leverage and ease of supervision

In a franchise agreement, the franchisee takes care of the human resources, from recruitment to payrolls and employee litigation. The franchisor is also spared from the day-to-day supervision and management issues that are dealt with by the franchisee.

This simplified system — fewer employees, less supervision and more organizational leverage — enables the brand to have a leaner process to expand, with no contingent liability and no involvement in case of employee or consumer litigations or accidents.

Furthermore, franchisees dedicate themselves entirely to keeping their business afloat, and in some countries have a better understanding of the regulations than an outsider when it comes to issues relating to local debt and salaries.

### Risk reduction and market penetration

Franchising is a major "do" when it comes to market penetration. First, on the franchisee level, they are usually known by their local community, either personally or from previous ventures, and have good knowledge of their markets. So the chances of penetrating the market quickly and smoothly are much greater than those of a company-run outlet.

There are benefits at the parent company level as well. Letting others run your business through franchising enables you to explore markets where you may not have taken the risks yourself. Whether they are more competitive, or remote, they can still be interesting territories for expansion, even if they provide less return.

### Better valuation

And finally, when the time comes to sell your business altogether, a franchised

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brand with a successful growth model will definitely have the edge for potential investors.

All this said, franchising is no bed of roses. There are downsides that can hit you hard if you are not prepared. Here are some of the key aspects you need to have in mind before rushing into a franchise plan.

### A clear business concept

The franchise model will only work if your brand is "franchisable," which means it is already up and running, successful and profitable. Franchising is not a fix for a failing concept. A business that is not well thought through or does not have the right processes will not succeed. The concept needs to be easily replicated anywhere; outlets that are successful due to their location only or the owner's continuous presence and constant involvement are not fit for franchise. And finally, developing a franchise plan requires skills and organization, as well as money. You need to have enough funds to cover the start-up costs for legal documents, franchise manuals, marketing materials, IP registration and recruitment.

### Screening the right franchisee

A good franchise opportunity will attract franchisees whose business standards will match yours. Finding the right entity to entrust with developing your business is key; they need to be financially sound but also share your core values. As a parent company, you will delegate most things to the franchisee. Beware of absentee investors; the success of the franchise will directly depend on the involvement of the local owner. A bad franchisee could impact both your revenues and your brand image.

### Changing jobs

Even if you feel that your business is ready to be franchised, you, as the owner, need to be ready to become a franchisor as well. The job is very different from owning and managing an outlet on a day-to-day basis. You will need to be ready to delegate and learn new skills, such as those relating to legal matters and real estate to understand regulations and validate locations.

### Hold your horses

Your expectations need to be realistic. You shouldn't plan for dozens of store openings in a short period of time just because you're not the one investing in the project. Limit your growth rate in the early years of franchising; otherwise, you will have to compromise on key aspects of the development, such as finding the right location, the right market positioning, spending enough time on training and product development. Also don't put spokes in your franchisees' wheels; overcrowding the market will make their lives more difficult. Setting up your franchise commercial terms needs to be well studied, taking into consideration the franchise terms benchmarks for similar concepts as well as the market you are penetrating and the brand equity. And finally, give yourself the time to learn from your mistakes, which you won't be able to do if you develop too quickly.

As they say in the restaurant world, "you're only as good as your last meal served." In the franchising world, this means that even if your concept is good, you cannot rest on your laurels. Your franchises need to have the exact same standards and to maintain consistency — choose wisely.