THE TRAPS FRANCHISORS NEED TO AVOID

While turning a business into a franchise can be rewarding, the path to success is not always a smooth one. **Nagi Morkos**, founder and managing partner at Hodema Consulting Services, points out the pitfalls and takes us through the dos and don'ts when it comes to franchising.

Most people dream big when opening a business. They envision a successful concept, a large clientele and a move to bigger premises. The bolder ones dream of opening a second branch or even expanding their brand at home or abroad. For those who have managed to complete this checklist, franchising can be a logical next step. However, while turning a business into a franchise can be rewarding if done properly, it is far from easy. There are dos and don'ts, and the don'ts are easy traps to fall into. A franchise process that is ill-prepared and poorly implemented can ruin a business irreparably. The following are some of the common mistakes made by franchisors when going international.

Lack of a business plan and franchise model

First and foremost, there needs to be a business plan in place which is well thought through. Elements that need to be considered include identifying your target audience, competitors and tapped markets, and looking into the legislation of a destination country. These tasks should be undertaken even before deciding upon a location and a franchisee, and will determine the initial steps. Advertising and marketing strategies are next, along with a financing plan, since these will make your brand eligible for franchising. The key, however, is to turn your business into a transparent and replicable model, with a clear vision of where you want to go. A franchisee will then find it easier to understand your plan and their role. Confusion, disorganization and inconsistency are your enemies and can lead to underperformance.

Insufficient capital

Contrary to the beliefs of some, franchising a business costs a significant amount of money, not all of which is provided by the franchisee. The franchisor is obliged to invest funds throughout the entire process to ensure that proceedings run smoothly and successfully for both parties. A lack of capital can be as damaging as a poor concept. Allocating funds in the initial stage to screen franchisees is crucial. Bear in mind, too, that a lack of money could deter solid candidates by making your company appear financially weak. You then risk having to lower your standards, which won't bode well for your franchising enterprise. Once you've signed a contract, bills for license fees and insurances will need to be taken care of. At this point, your financial involvement will be required throughout every step of the implementation phase. This includes: training for the teams; inventory and software procurement; supervising the setup; and finally, delivering assistance to the franchisee, while constantly updating your marketing strategy.

Underestimating costs

Miscalculating the necessary funds is another potential money issue. While overvaluation is unlikely to cause major problems, minimizing them, on the other hand, can certainly be problematic. Franchisees contractually agree to a project that's financially assessed and miscalculation can lead to distrust, or worse, a lack of funds to continue the franchise venture.

Inadequate screening

Selecting the right franchisee is paramount to success and requires sufficient funds and effort at the screening stage. By failing to select the right candidate, franchisors risk finding themselves stuck with franchisees who prove to be poor representatives of the brand or make unsound business judgments. Spending time on background checks and holding extensive in-person meetings are vital contributory factors.

Neglecting training

Training is an essential part of the franchise process. Providing training to a franchisee in the initial phase ensures they will have a good grasp of the concept, the goals and operational side of the business. Marketing, finance, customer service and legal issues should also be covered. On a broader level, training for staff should involve explaining business policies and procedures, and providing new employees with assistance and manuals. Training programs need to be updated regularly to follow the latest trends and market conditions.

Breakdowns in communication

With training comes an evaluation of the performance. This boosts the chances of financial success and provides the franchisee and employees with much-needed feedback and guidance. A lack of support and recognition can lead to inefficiencies, non-compliance and a loss of motivation. Similarly, a franchisor must also listen to the franchisee's feedback, whether this takes the form of concerns, suggestions or complaints, since it can pave the way for adjustments or even a change of strategy if required. Clear and honest communication prevents misunderstandings and frustration. It nurtures trust, which is absolutely essential, especially since, while both parties rely on each other for success, there are plenty of topics that they can disagree on, spanning fees, marketing, operations and performance. Unrealistic expectations on either side can also lead to misunderstandings. Bear in mind that taking your business abroad may well mean dealing with a foreign franchisee in a new environment with different cultural standards. Communication will help you avoid the risk of making a faux pas.

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Failure to devise a comprehensive franchise agreement

When drafting a franchise agreement, there are multiple things to bear in mind. First, it shouldn't be too controlling since overbearing contracts can scare away promising candidates, but neither should it be weak. A contract needs to include comprehensive standard operating procedures, such as customer service guidelines, operational procedures and human resource development. Again, the costs should be carefully evaluated. Avoid asking for an excessive share of the franchisee's profits; although boosting earnings can seem like a good idea, imposing disproportionate fees risks harming your business by curtailing investments in marketing, advertising, customer service and overall quality. The deal should also include updates in value and services for existing franchises. Once the outlet is open, the franchisor must continue to deliver support and marketing to ensure that the business stays on top of its game and the franchisee feels confident that they are receiving value for money. It is crucial that the operations manual is always kept up to date, while protecting the brand or trademark must be mandatory; the company's intellectual property (IP) should be protected in the contract and in the operating procedures.

Exercising excessive control

Whether it is written in the agreement or not, it is never good practice for a franchisor to exert excessive control. Keeping an eye on a franchisee is important to maintain quality and reputation, but being constantly on somebody's back can trigger resentment and stifle creativity and autonomy. Implementing rigid norms and regulations or making changes against the franchisee's will can also damage the relationship.

Expanding too quickly

Perhaps surprisingly to some, this risk is closely associated with good business plans. While franchising relays the message of success for a brand, the franchisor should still be careful not to rush into replicating the franchise system before perfecting the concept with the first outlet. Learning from mistakes and building a support system first are vital. Rushing, without thorough evaluation, could also lead to selecting unsuitable locations, risking site failures. A hasty expansion will leave the franchisor unable to properly manage, supervise and assist new outlets, especially those in other countries. Making this mistake can crush even a good concept.

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