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Franchise Opportunity

– 5 Questions to Ask About the Franchise

Franchising has become one of the most important and effective business growth strategies in the past quarter century. Although franchise system development dates back centuries to the times when monarchs awarded territories to tax collectors, current franchise business systems date back decades to the Singer Sewing Machine strategy of granting rights to individual business people to sell Singer products in various regions.

A Franchise strategy allows the Franchisor to penetrate, develop, and dominate markets on a simultaneous basis. A Franchise system also allows for each individual Franchisee to own their very own business, and yet participate in, and garner value from, a proven Franchise system.

A good Franchise system allows the Franchise Company to gain market share quickly, which serves as a barrier to competition, and helps build the Brand, which in turn creates exponential value for all stakeholders – including each Franchisee.

So how do you identify a good Franchise system? Well it makes sense that if you want to find out about strategies, culture, and compatibility, then you should ask the right questions. The answers can then be assessed to determine if the fit is right.

The following discussion covers five questions that should always be asked by the Franchise Candidate. If a Franchisor is either unwilling, or unprepared, to answer these questions, it should be a strong indicator that the fit may not be right.

How Big Is The Market?

The Franchisor should have a good handle on the available market for the product or service that you will be offering as a Franchisee. Presumably the Franchisor has done extensive research on the current market size, as well as the potential market size for the future.

The Franchisor should be willing to share that information with you so you can assess the data to make sure that the opportunity is going to be of sufficient size to satisfy your own goals. You may have to sign a non-disclosure agreement first, but the information is important to you, so it must be assessed. The whole idea of Franchising is to ensure that the goals and dreams of the Franchisee, and those of the Franchisor, are unified. If the market availability will allow for strategies to be implemented by you, which are consistent with your goals, and those penetration goals are congruent with the Franchisor's goals, then all is good.

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If it's a long-standing and stable market, then there should be plenty of statistics to back up that conclusion. If it's a new and burgeoning market, there should be analysis that you can assess to give you a comfort level that you, together with Franchisor, can go get a significant share. If it's a fad market, or limited life market, then the strategies should reflect that, as should the agreements.

The caution is that if the Franchisor is wishy-washy about the market, or is unwilling to discuss the issue in depth with you, that should be a significant warning sign.

Who are The Competitors?

The Franchisor should have a good understanding about the competition, and how much market share they command. It doesn't matter how big a market is if it's completely saturated, unless the Franchisor has specific strategies to eat someone else's lunch.

The Franchisor should be able to talk to you about specific competitors, what their strategies have been, what they will likely be in the future, and how the Franchise system intends to penetrate that market.

The Franchisor should also be willing to discuss the future competitor that may appear on the horizon. They may not be willing to disclose their specific strategies about dealing with that eventuality – at least not without erasing your memory after the discussion. However, a general discussion about the issue should give you some solace that they have

thought about their approach, and that you feel comfortable with their preparedness.

Again, if the Franchisor is not sufficiently prepared to discuss current competition, as well as future competition, then warning bells should go off.

Is The Franchise Scalable?

This issue relates to your own targets, as they all do. If you want to grow a your business to leverage the Franchise process in multiple locations, or by leveraging the results of a number of employees, or by any other criteria appropriate for the business, does the Franchisor allow for that growth? If leverage is one of your goals, and the means and market are available in the Franchise system, what is the cost of that leverage?

Some systems that provide services, won't allow you to hire employees, while others encourage it. In the case of the systems that encourage it, you should ask about the cost of adding units in that strategy, and the training process for any new employees.

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In retail environments, the leverage will come from additional locations, or physical expansion, or additional product lines, so your questions must relate to that availability, and the capital cost required to execute the strategy.

Other related questions include asking about geographic restrictions to where you can build business. Again, some Franchises have geographic restrictions, while others allow you to build business without reference to the map.
The important thing is to ask the questions, and understand the answers to make sure your future growth goals can be met by the system you are assessing.

What Are the Franchisor's Growth Plans?

You may think that a Franchisor's growth plans are not important to you once you become a Franchisee. However, there are a number of factors that illustrate that a Franchisor that has continuing growth plans will increase the value of your investment.

The opposite of growth would be shrinkage. That doesn't sound too good does it? The middle point would be stagnation. That's not too attractive either. So why is growth important?

One important factor is related to the penetration goal stated above. If there is room to penetrate, and the Franchisor doesn't have strategies to meet that market, guess want will happen. Yep, competitors will penetrate, and through their growth strategies, they might eat some of your lunch. It is logically better for you that the Franchisor has growth strategies that will address that market need, and grow value in the Franchise system, as opposed to rolling out the welcome mat for competitors.

A second factor is that a normal phenomenon in Franchising is that each Franchise that is added to the system, and each new customer that is added to the system, and each new employee that is added to the system, will increase the value of the brand. Volume carries clout in price negotiation. Messages are carried by more lips. More signs, more transactions, more bank deposits, more customers, more vendors – it all translates to increased brand recognition. Increased brand recognition should translate to more business for each Franchise.

In addition, growth strategies will generally drive up the Franchise Fee. That means that if you pay $2 as a Franchise Fee, and growth strategies drive the Franchise Fee up to $5, then that becomes the base value for your Franchise because the market will pay that price. That's a nice return on investment if it's achieved over a reasonable timeframe, which of course is driven by the Franchisor's growth strategies.

O.K., so there are lots of good reasons that growth is important as opposed to shrinkage or stagnation. However, you must also feel comfortable that the strategy is sensible. That's why you need to ask the questions, and you should expect well thought out answers that makes sense to you.

What Exit Strategies Are Available?

There are many factors that should come into your analysis before becoming a Franchisee. The folly often lies in not considering this part of the equation at the very time that you are considering entry into the Franchise in the first place. That's exactly the time when you need to give significant consideration to the value of the asset that can be created. Ongoing profitability, cashflow, and emotional fulfillment, are all important criteria in the process of making an informed business decision about becoming a Franchisee. But then so is the growth of the asset value you create, along with the ease of realizing that value at the time you intend to exit.

You need to discuss these issues with the Franchisor as you consider the Franchise opportunity. If the Franchisor isn't willing to discuss these issues, then it may mean that there isn't a solid basis for asset growth, and current profitability is the only consideration. You have to determine how important this particular part of the equation is for you. The important part is to ask the question so you can assess the response in terms of your own goals and dreams.

There are many more questions that must be asked of the Franchisor. These five questions will give you a good basis to understand the general strategies and thoughts of the Franchisor. That way you can determine if you have unified thinking, and if that answer is affirmative, then you can craft more specific questions about the system.

To receive a free copy of an E-Book titled 'Franchise Opportunity – Making the Right Decision' by Dennis Schooley, email that request to corp@schooleymitchell.com.

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