



Franchising perspectives - for early-stage businesses with franchising potential.

- Franchising is a business arrangement where a company, (the franchisor), licenses its brand and business methods to an individual or group, (the franchisee), in exchange for a fee. The franchisee then operates the business using the franchisor's name and systems.
- Franchising can be a powerful way to expand a business. In fact, the International Franchise Association estimates that 44% of all businesses are operated by franchisees. We're all familiar with popular franchised fast food concepts like McDonalds, but you'll also find franchises in industries such as hotel management, childcare, business consulting, fitness centers, senior care, and just about any other industry that comes to mind.

Think of franchising as a new business venture.

- If you decide to franchise your business concept, you will need to develop a range of new skills.
- Up until now you've focused on marketing, selling and delivering your company's product or service. Successful franchising will require you to also become skilled at marketing and selling a business opportunity and providing ongoing leadership and support to franchisees.
- You will also need to monitor the operations of your franchisees to ensure they meet your standards and protect the integrity of your brand.

As you contemplate franchising your business concept, you must consider, and have compelling results and responses relating to, the following factors:

1. Business model viability

- **Proven measurable success:** Ensure that the business model is successful, with consistent profitability and growth. A franchisee will expect a proven, replicable system.
- **Proof of concept:** Your business should ideally be operating successfully in multiple geographic locations. If you can demonstrate viability in urban, suburban, small town and rural locations you can significantly increase the potential market for your franchise opportunity.
- **Scalability:** The business should be easily replicable in different locations with minimal changes to the core operations.

2. Brand strength

- **Brand recognition:** The brand should be strong, with a clear value proposition and a solid reputation. A recognizable brand makes franchising more attractive.
- **Intellectual property:** Protect your trademarks, logos, and proprietary systems. Franchisees will rely on these assets to attract customers.

3. Operational systems

- **Standardized processes:** The business should have detailed, documented processes for operations, marketing, sales, and customer service that can be easily transferred to franchisees.
- **Training programs:** Develop comprehensive training programs to ensure franchisees can operate the business effectively from day one.

4. Financial health and risk management associated with the launch of franchising

- **Initial investment:** Assess the costs associated with franchising, including legal fees, marketing, and support systems. Ensure you have the financial resources to support franchisees, especially in the early stages.
- **Revenue streams:** Determine how you will make money from the franchise (e.g., franchise fees, royalties, product sales) and *ensure the financial model is sustainable for both the franchisor and franchisees.*

5. The support systems required

- **Ongoing support (advice, tools and processes):** Be prepared to provide continuous support to franchisees, including marketing assistance, operational guidance, and troubleshooting.
- **Technology support:** Invest in scalable technology systems (e.g., third-party POS systems, inventory management, CRM) that can support multiple locations and ensure consistency and scalability.

6. Market research that validates the franchise market potential

- **Demand assessment:** Conduct thorough market research to determine if there is a demand for your business in new locations. Consider regional variations in customer preferences and competition.
- **Competitive risk assessment:** Understand the competitive landscape in areas where you plan to expand. Ensure your franchise offers a unique value proposition. Document strategies and tactics to be an effective competitor.

7. Define the “ideal” franchisee profile up front

- **Ideal franchisee:** Define the qualities and qualifications of your ideal franchisee. Consider the skills, experience, and financial resources they should have to ensure they can run the business successfully.
- **Screening process:** Develop a robust screening and selection process to find the right franchisees who align with your brand values and goals.

8. Define the “ideal” cultural fit for a franchisee

- **Brand culture:** Ensure that your brand’s culture and values can be maintained across all locations. Franchisees should understand and embrace your business ethos.
- **Local Adaptation:** Consider how much flexibility you will allow franchisees to adapt to local markets while maintaining brand consistency.

9. Long-term Vision for the business the franchisees will help build & expand

- **Growth strategy:** Develop a clear long-term strategy for how franchising fits into your overall business goals. This includes setting realistic expectations for growth and managing the pace of expansion.
- **Exit strategy:** Consider your long-term involvement in the business. Will you eventually sell the franchise system, or do you plan to remain actively involved?


 **SUMMARY:** *franchising can be a powerful growth strategy, but it requires careful planning, significant resources, and ability to scale, and a commitment to supporting franchisees. Evaluating the factors above thoroughly will help determine if franchising is the right path for your business.*

IN SHORT: This is not a “Ready - Fire - Aim” decision!!!

Once you are confident in your answers to the items 1-9 and you are ready franchise your business it's time to move to the final step:

10. Hire an experienced “franchise attorney” to help you meet your legal obligations

- **Franchise Disclosure Document (FDD):** Prepare a comprehensive FDD, which is required by law in many countries. This document outlines the relationship between the franchisor and franchisee, including fees, obligations, and legal protections.
- **Franchise Agreement:** The Franchise Agreement takes the information disclosed to prospective franchisees in the FDD and puts it in the form of a contract between the Franchisee and Franchisor.
- **Legal Compliance:** You cannot legally sell franchises anywhere in the USA until you have a compliant Franchise Disclosure Document (FDD) and Franchise Agreement. Some states place additional initial and ongoing requirements on franchisors so it is critical that you hire an experienced franchise attorney to make sure you understand the regulations governing franchising in your country and any states or regions you plan to expand into. Consult with a franchise attorney to navigate these complexities.

 **NOTE:** *The estimated cost of the necessary franchise attorney support you need will run to an estimated \$20,000 or more. This includes creating all the legal paperwork, updating it on a continuous basis, and having your franchise financials audited annually.*

Note – this outline is meant to be accompanied by oral commentary from your HBS alumni coach.