

How do you determine whether the franchisor understands the business of franchising?

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Companies offering world-class products and services frequently contact MSA looking to become franchisors. They may only have developed a loyal customer base in their local market or they may be a member of the Fortune 500 whose brand is a household name. Regardless of their size and reputation, at MSA we believe it is essential to first examine the company's underlying business before we help them become a franchisor. During a feasibility examination we measure the client's company against criteria we use in determining franchiseability. The simple concept of measuring a business against recognized standards is one of the most essential services we provide to emerging franchisors.

Sometimes we find that the client's business will never work as a franchise due to economics or complexity or possibly even a lack of qualified franchisees necessary to meet the company's expansion goals. Sometimes there are elements missing that need to be developed before the company invests the significant resources necessary to become a franchisor. Sometimes those missing elements can be created during the franchise development program and the launch of the new franchise can progress unimpeded. Sometimes we find the gaps are so significant that the development of the franchise programs may be delayed for a considerable period of time.

Unfortunately, not every franchise system is developed after a feasibility examination. And, while most franchise systems have the tools and management skills to succeed as a franchisor, many may not even be viable. How can that be possible if franchising is one of the most regulated businesses in the United States? It's really quite simple.

The legal requirements to become a franchisor in the United States are very low. All a company needs to have is a disclosure document and all a company needs to do is present those documents to a prospective franchisee at the appropriate time. No regulator ever reviews those documents in most of the United States. Even where they do, the role of the regulator is to ensure that the franchisor is in compliance with the law, not to ensure that the franchisor's underlying business is franchisable or even viable. The ease of entrance means that not every franchise concept being marketed today is worthy of your investment.

Your dilemma as a prospective franchisee is that a well-packaged franchise opportunity may appear to be a great business. How do you really know whether the franchisor understands the business of franchising? How do you know that they have the necessary tools and systems to support you as a franchisee and to grow the business? Managing a franchise system requires a wholly different set of skills than those used in operating the business that is being franchised. The time to find out if your franchisor

understands the business of franchising is before you invest in the franchise. You need to conduct a feasibility examination on the franchisor of your own.

To be successful franchise systems must have the right people on board. In smaller franchise systems, the resources available for management and staff may be slim and your support may be coming from only a handful of people. Often, that is perfectly acceptable since there are few franchisees to support and the franchisor often overcompensates by providing hands on and personal services that future franchisees can't expect to receive. In larger systems franchisors often have a staff person or a whole team available for every support service they will be providing to you. Regardless of the staff you must be certain that they have the human and financial resources to exceed their legal obligations to you.

Experience counts though and so does a person's track record. One of the benefits of the disclosure rules is that the franchisor needs to provide you with information on the management of the franchise system, their employment, litigation and bankruptcy history. You need to examine closely who the management personnel are and what they have accomplished during their careers.

When you invest in a franchise you are going to rely upon the franchisor to meet their obligations under the franchise agreement they sign with you. Does their background provide you with comfort that they are honest and are likely to do the right thing when required? Have they been convicted of any crimes including anything to do with violations of the securities laws? Do they have a history of bankruptcies and how have they met their obligations. Have they been involved in lawsuits from franchisees or former business partners? The past can tell you a lot about the future.

Examine their employment history closely. Look at the performance of their former companies when they were there – the information may be as easy to find as going to the web and doing an archives search of business publications. If they came from another franchisor, call some of the franchisees in that system and ask them to give you their insights on the people you will be relying on. Talk to the current and former franchisees in the system you are examining. Ask them about their experience with the franchisor's management team. Look at news articles about the system and if it is a public company see if any of the analysts have followed the management personnel closely. Honest and ethical conduct is essential in a franchisor. And in addition to their personal conduct, a track record that shows a history of being able to grow and manage businesses is equally important.

As in most industries, insiders often know who the true professionals are. Franchising is a relatively small industry and that type of information is readily available if you know the right people to ask or to ask for you. An experienced franchise lawyer or consultant, active in the industry, can help you source the information you need about the franchisor's management through their business network. Your professional advisors should be active members in the Supplier Forum of the International Franchise Association (IFA) and/or the Franchise Forum of the American Bar Association (ABA).

These are two of the most influential and active organizations for professional in franchising and working with a member of either group can be very beneficial in finding out the facts about a franchisor's management style and capabilities. Have your professional advisor examine the franchisor's organization to ensure that they have the capability to exceed their obligations. Have them verify that the franchisor's management has a history of managing and growing successful franchised businesses.

We must admit that we are biased to the International Franchise Association. Michael is a member of its board and past chair of its supplier forum and Kay is an active member of the board of the supplier forum. But it makes sense to look for franchisors that are active members of the IFA. The IFA is considered the premier educational provider in franchising and its members are the leaders in franchising. Contact the IFA at www.franchise.org to determine if your franchisor is a member.

It is a positive indication if your franchisor management and staff regularly attend the seminars and other education programs on franchising that is conducted by the IFA. Better yet, see if they are often asked to make presentation at IFA programs. Providing programs on a regular basis is a strong indication that your franchisor has earned the respect of their peers. Staying knowledgeable about franchise management by attending courses at the IFA and universities is important for franchisors to stay current about management trends in franchising.

See how many of the franchisors management and staff have earned the Certified Franchise Executive credential issued by the IFA's Education Foundation or how many are working toward that designation. The CFE designation is a relatively new credential and during the past ten years is becoming a recognized standard for franchise professionals. To earn a CFE a candidate needs to meet several requirements including employment in franchising and completion of core and elective courses. Talk to your franchisor about how seriously they take continuing professional education in franchising.

Work with competent professionals in looking at the franchise and its management. Make certain that the advisors you choose have the right credential and that they work for you and are not brokers or agents of the franchisor. Getting advice about the franchise opportunity or its management from people paid by the franchisor to sell you a franchise is not a logical way to go for information. You might not get the information you need since the broker gets paid only when you buy the franchise.

Remember, you always need to complete a thorough due diligence on any franchise opportunity. But, knowing that the people behind the franchise are honest and ethical and have the skills and a proven track record in franchising is important if you want to reduce your investment risk.