FBA | Franchise Brokers Association

Introduction to Franchising

Franchise Broker Training

Introduction to Franchising

- This lesson goes into the understanding of what makes a franchise, the required disclosure in franchising and the components of it, the agreement between the franchisor and franchisees and more. The course focuses on a guide which the International Franchise Association developed to inform the public on the types of franchises and what franchising entails.

What is a franchise?

- A franchise is the agreement and license between two legally independent parties with defined rights, terms, responsibilities and obligations.

Common Franchise Terms

- Franchising has many terms that are used to define legal documents, parties to the agreement, the relationship itself and much more.

Alternatives to Franchising

- In addition to franchising, there are two other popular methods by which businesses expand their market and distribution channels.

Advantages & Disadvantages

- Looking at franchising from the candidate perspective, there are distinct advantages and disadvantages to be considered.
- The same can be easily referenced for business owners deciding whether or not franchising is right for their growth and expansion objectives.

Legal Issues

- Franchising is governed by federal and state laws that require franchisors to provide prospective franchisees with information that describes the franchisor-franchisee relationship.
- Two primary documents are Franchise Disclosure Document and Franchise Agreement.

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Options Available

- Once an individual makes the decision to go into a business of their own, they must decide whether they want to be an independent business owner or a franchisee.
- Similar options are available to independent business owners deciding on their growth and expansion options.

Due Diligence

- Prospective franchisees must devote a vast amount of time researching the franchises available and evaluating the strength of the franchisors.
- The same holds true for independent business owners devoting time to explore industry segments and current franchises that in essence would be competition.

Franchise Documents

- Understanding what is in the Franchise Disclosure Document and Franchise Agreement are essential to operating a franchise business and even a business related to franchising.

Franchise Agreement

- The Franchise Agreement is more specific than the FDD about the terms of the relationship between the franchisor and franchisee.

Franchise Disclosure Document

- The purpose of the FDD is to provide prospective franchisees with information about the franchisor, the franchise system and the agreements they will need to sign so that they can make an informed decision.

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Financial Statements

- Financial statements are the track record of the franchise. They are provided for you in the FDD and contain important information about the franchisor’s financial status and strength.

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About the Franchisor

- Franchisors have many responsibilities and obligations as defined by the FDD, Franchise Agreement and Operations Manual.
- There are also systems and processes that must be developed to ensure the brand is sustainable for the benefit of both Franchisor AND Franchisee.

Keys to Franchise Success

- The keys to franchise success must complement both Franchisor and Franchisee to establish an interdependent relationship.

The Franchisee Perspective

- Individuals become Franchisees for a variety of reasons from replacing a job to achieving their wishes, hopes & dreams… and a lot in between.
- They need to ask themselves very important, pointed questions and answer them honestly and transparently.

FRANCHISING SIMPLIFIED

What is Franchising?

- Franchising is a business strategy.
- Franchising is a marketing system.
- Franchising is a network of relationships.

Franchising is a business model…

that can be replicated

over and over and over,

again and again and again!

Franchising Understated

- Proven business system – making money and been in business for X years
  - Consistent quality of product or service
  - Excellent customer service
  - Effective marketing

Franchising for the Wrong Reasons

- “Is this a franchise?
- “This looks like a franchise?”
- “This should be a franchise!”
- “Have you ever thought of franchising this?”

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Costs to Franchise

- Feasibility study $5000-10000
- Operations manuals development $7500-20000
- Training program development $5000-10000
- Operations support program development $5000-10000
- Website development (locations & fran opportunity) $8000-15000

Costs to Franchise (continued)

- Franchise relations management program $5000-25000
- Prototype store layout & design $5000-20000
- Signage specs development $2500-5000

Costs to Franchise (continued)

- Franchise Disclosure Document development (FDD) $15000-35000
- Registration states fees $0-8000
- Certified financial audit $3000-15000
- Franchise Registry $2500-3000
- Consulting $15000-35000

Total Costs to Franchise

- Low $78,500
- Mid $132,500
- High $211,000

Pros & Cons of Franchising

PROS

- Expand with franchisee investments
- Expand faster than with own capital
- Initial franchise fees
- Multi-unit & Area Development*
- Ongoing royalty payments
- Out of daily operations & into the boardroom

CONS

- High startup costs
- No longer in X business – you're now a franchisor!
- Franchise laws & regulations
- Annual requirements
- Responsibilities as defined by the franchise
- And not defined… Many times franchisees just don't get along

Franchisor Personality Test - 1

- Many individuals that make an investment in a brand truly believe they own the brand and have the right to do as they please. *Could you handle that?*
- Some individuals refuse to follow your system and recipes causing bad Yelp reviews. Other franchisees are upset and demand you do something about it. *Could you handle that?*

Franchisor Personality Test - 2

- A few individuals may just be needy and whiny – about EVERYTHING! Could you handle that?
- A franchisee is not complying, not paying royalties, causing issues in the marketplace and as a result, you must take the franchisee to court and possibly terminate the franchise agreement and cease operations. Could you handle that?

Franchisor Personality Test - 3

- And, God forbid, one of your franchise locations is shut down by the Health Dept because customers got ill after eating there (think Chipotle). Could you handle that?

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Franchise Myths

- If I franchise my business I will make tons of money.
- If I franchise my business I won't have to work as hard as I am working now … I can just retire.
- Once I teach a franchisee how to run the business I do not have to do anything else for them. After all, they signed an agreement to pay me royalties for a long time.

Franchise Myths (continued)

- All franchisees are highly motivated. They have paid a lot of money to buy the franchise; they are going to do everything they can to make it work.
- My franchisees should have no problem learning the business and doing all that needs to be done to open it and manage it successfully; after all, I am doing so much for them.

Successful Franchise Operations

- Proven business system – sustainable & profitable for a relative period of time
- Consistent quality of product & service
- Exceptional customer service

Successful Franchise Operations

- Highly effective marketing
- Excellent branding
- Documented procedures
- Appealing to the eye inside and out
- Measurable key performance indicators (KPIs)

The Core of Franchising

- An interdependent relationship between all parties to the Franchise Agreement based upon proven systems and processes that can be replicated over and over again, even at remote locations…

QUESTIONS & ANSWERS