

# **Introduction to Franchising**

**B**efore I get into what it takes to invest into individual brands, I want to establish some terminology and define some terms.

## **Definition of Terms**

According to Dictionary.com, a *franchise* is “the right or license granted by a company to an individual or group to market its products or services in a specific territory.”

I find this definition insufficient to the point of being laugh-out-loud funny.

True, a franchise is a legal contract, but when a franchisor is skilled, it takes more the shape of an intangible social contract than a tangible legal contract. The social contract is simple. Franchisees agree to execute the business model to the best of their ability, to build the brand locally consistent with the intention of brand leadership, and to add more value to products and services than it charges customers in price. The franchisor agrees to continually refine processes and systems and go to work each day to add more value to the franchisees’ business than it extracts in royalties.

Put it another way, the social contract says, “We each have roles and responsibilities that impact each other. We are in this together and the common bond is building value in the brand.” Within this social

contract, there is no assumed hierarchy, no parent company that lords over the lesser-than, childlike, dependent franchisees.

Franchisees and the franchisor only pull out the legal contract when this social contract breaks down.

Because the textbook definition of “franchise” describes what the relationship looks like when the franchisor relationship is failing, I want to take the time to create more intelligent and workable definitions.

- From this point forward, I use the terms *franchise* and *franchise system* to describe the legal and social contract binding all stakeholders of the brand, its franchisees, supply chain, and franchisor’s executives and employees.
- I use the term *franchise agreement* when I refer to the actual license. I use the term *franchising industry* to describe the estimated almost \$800 billion ecosystem of franchisors, franchisees, suppliers, and other stakeholders, such as the IFA.
- The Franchise Performance Group (FPG) defines *franchising* as a brand expansion strategy entailing recruiting, training, developing, resourcing, and leading a team of successful entrepreneurs in order to build a brand.
- FPG defines the *franchisee-franchisor relationship* as the totality of the contractual, commercial, and interpersonal relationships between the franchisor and franchisees.
- FPG defines *franchisor* as the company that licenses a business system and trademarks to a franchisee and the *franchisee* as the licensee of the same.
- FPG describes *the brand* as the meaning and value customers assign to a particular business. In other words, it’s everything that customers, franchisees, franchisors, and suppliers perceive about a business – what the business represents, the service it offers, and the value customers receive by patronizing the business.

# Franchising Is a Business unto Itself

Throughout this book, I repeat this again and again. Franchisors are in two businesses, and they need to be brilliant at both to succeed.

- **The consumer-facing model:** The brand competes in the industry in which it distributes its products and services. This is how well the brand sells its products and services to the marketplace.
- **The business of franchising:** I define the business of franchising as “recruiting, training, developing, resourcing, and leading a team of entrepreneurs to successfully build a brand.” Notice the product or service is not mentioned in the business of franchising. The business of franchising is about delivering effective training, coaching, and expertise of the consumer-facing model to new franchisees who presumably are new to the industry and business model.

I briefly describe these two businesses and continue to develop these important themes throughout the book.

## ***The Customer-Facing Model***

For simplicity, I call the end user “the customer,” whether the business is business-to-business or business-to-consumer. Virtually every brand is faced with stiff competition within their respective industries. This appears self-evident. However, what does it mean to compete effectively?

A brilliant franchisor will have built a consumer-facing business model, which on balance should receive high marks on all the following criteria:

- **Their consumer offer is unique** (or copycats will crowd the market and drive down revenues and margins).

- **The business model is profitable** (delivering acceptable returns for franchisees).
- **Their offer is defensible** (so franchisees can carve out and defend a position in their marketplace and distance themselves from copycat concepts).
- **Their business is resilient** (so franchisees can weather any coming economic storms).
- **The business is replicable and scalable** (so an average franchisee will predictably earn an acceptable return on their time, money, and energy, regardless of whether they are opening in existing markets or pioneering a new market).
- **The business offers long-term sustainability** (so once the brand is built, the business creates a flywheel that generates predictable and recurring income for franchisees).

The following sections look at each of these points in more detail.

### **The Consumer Offer Is Unique**

*Businesses that offer commoditized products and services will ultimately engage in a war of convenience and price.* If the customer can't distinguish one brand's offer from the next, then ultimately business will be won by which brand offers the lowest price, is nearest to the customer, or can get to the customer the fastest. The market becomes a war of price and convenience and franchisees struggle to remain profitable.

As a franchisee, you never want a business involved in a price war. Years ago, Subway offered \$5 subs. The brand essentially trained the customer to spend no more than \$5 on their product. As proteins, commodities, and labor costs increased, franchisees had a brutal time trying to pass these costs to their customers, who wanted \$5 subs. Margins shrank. Franchisees became less profitable. The goals of

the franchisor – who makes their money on the top line revenue and not on the bottom line cash flow – were not aligned with their franchisees, and thus were slow to respond. Franchisee dissatisfaction soared. Many franchisees started diversifying into other food concepts rather than reinvesting into opening more Subways, to the detriment of the brand.

### **The Consumer Model Is Profitable**

A small business exists for the mutual benefit of the customer and the business owner. Whether the franchisee is an owner-operator or runs an empire, the business needs to consistently hit their financial objectives or it's a bad investment. The franchisor does not get to say what is or isn't a good investment any more than the business owner gets to tell a customer what they should value. The franchisee alone determines what is and isn't an acceptable return on time, money, and energy.

### **The Offer Is Defensible**

One of my favorite brands is Sandler, a business training franchise operating inside a nearly \$80-billion industry where more than 60% of businesses outsource their training. While their franchise agreement is only five years, many franchisees have a 15–20 year tenure, meaning they keep renewing their agreements and doing business with the brand. Franchisees love what they do. Since the brand markets sales knowledge and experience as its core product, think about the brand's competitive advantage of sustaining a team of highly skilled and experienced Sandler sales zealots around the country.

Sandler, at the time of this writing, is one of the nation's leaders in sales training, with systemwide sales reported to be about \$150 million. No brand operating in the training space appears to have more than 1% market share, so it's a dominant brand in a

fragmented industry, giving franchisees a real competitive advantage over independents in the same space.

Other than Dale Carnegie, Miller Heiman, and a few other brands, Sandler franchisees compete against a cottage industry of motivational speakers and success coaches who may have personality but often lack valuable intellectual property and sales systems to impart to their clients.

Why do I like dominant brands in a fragmented market? Simple. When a new Sandler franchisee opens in a new market, what competitor can keep the franchisee out? What competitor can make it rough for the franchisee to acquire new business?

### **The Business Is Resilient**

The business is not subject to dramatic market fluctuations, or the model is adaptable. Take hair care, for instance. Stylist.com once published a study that showed the average woman spends \$50,000 coloring her hair during her lifetime. Whether the stock market is up or down or interest rates are high or low, whether it's raining or snowing, a universal truth remains. Many women don't want gray hair.

### **The Business Offers Long-Term Sustainability**

Years ago, the market exploded with self-serve yogurt chains. Many of the emerging brands bought their product from the exact same dairy, meaning they were selling the exact same product as the brand directly across the street from them.

Brands like Yogurtland tried to capitalize by tying their brand to the product. The net effect is that the brand remains relevant only if the product remains in demand. For instance, can Yogurtland credibly sell ice cream or Italian ice? Ultimately, the brand becomes directly tied to the product lifecycle. As demand for the category decreases, so does brand relevance and franchisees' profitability. It's often a bad

idea to buy a brand completely tied to a product, because the product may turn out to be a short-term fad.

For many years, I was intimately involved with the market leader in frozen yogurt called Menchie's. Menchie's sold self-serve frozen yogurt, but the brand was built around a customer experience with the long game of building a National frozen dessert brand, not a frozen yogurt brand or any other particular product. While frozen products come and go, customers seemingly will always go out to eat frozen dessert in some fashion. Menchie's CEO promised all new franchisees that Menchie's would ride the wave of frozen yogurt demand to build a National frozen dessert brand and to build National distribution. As customer preferences shift, Menchie's would pivot and add and delete products to and from their menu, keeping the brand forever relevant in the frozen dessert marketplace.

The strategy was the right one. Smart franchisees flocked into the brand by the hundreds, and Menchie's became a rocket ship of over 500 stores.

As demand for frozen yogurt cooled (pardon the pun), the CEO froze (pardon more puns), never fulfilling his promise to diversify the menu. As a result, sales suffered. The CEO stayed on his collision course with failure, despite all evidence the ship was sinking. Many stores closed. Menchie's killed the golden goose and franchisees suffered. As I was intimately involved with the brand, Menchie's remains one of my biggest career disappointments. I could not impact the poor decision-making of the CEO.

Menchie's original strategy appeared bulletproof. They executed well during their emerging growth stage. If I knew then what I know now, I would have spotted that the CEO was *never* going to navigate change, which ultimately would have cratered the brand. A franchisee can outperform a brand for only so long before the poor performance of the brand creates a ceiling. While much has been written about how to find the right business for you, in my opinion

not enough has been written about how to spot a poor franchisor or a self-sabotaging leader, especially when they are flying high and there appears to be evidence to the contrary.

The industry of franchising has never done for the franchisor what successful franchisors do for the franchisee, which is to define, document, train, and support on a proven franchisor model. *There is no documented franchisor model in existence.* There is no manual, no book, no integrated business format in existence to show a franchisor how to go from one unit to a National brand of 1,000 units or more. Every franchisor has to create their own franchisor model through trial and error. That's why I specifically call out franchising as a business unto itself and present it as a potential limiting factor to would-be franchisees.

## ***The Business of Responsible Franchising***

Earlier I defined franchising as “recruiting, training, developing, resourcing, and leading a team of entrepreneurs to successfully build a brand.” Let's look at each of these tasks individually.

### **Franchisee Recruitment**

Franchising has largely embraced recruiting of entrepreneurs into the brand as a sales function. Many if not most franchisors consider you a “lead,” and if you go further as a “prospect” they will discuss your “hot buttons” (reasons for buying). I see it as talent acquisition. My company (FPG) has mystery-shopped and trained hundreds of franchisee recruiters working for many brands you would recognize. Over the last 20 years of mystery, we have *never* been effectively interviewed by a brand. Most brands fail at knowing what the qualifications are on the franchisees they onboard, which adds substantial risk to your investment. An officer of the company would typically

put a prospective administrative assistant hire through a more intensive interview process than they put franchisees through.

## **Training**

Franchisors are in the business of imparting knowledge and skills of a new business to someone presumably from the outside of that business or industry as quickly as humanly possible. In other words, they must be adult education experts. As you research a brand, see if the people overseeing training have a corporate training and curriculum development background or whether they simply promote a manager or family member into a role they aren't qualified for.

## **Developing**

Training is not a one- or two-week event, although that's how many franchisors treat the learning process. I have two brothers who were educators, so I know that educators have a saying: "I haven't taught until they've learned." In Malcolm Gladwell's book *Outliers*, he describes the 10,000-hour rule, meaning it takes 10,000 hours (approximately five years) to master something. While I have no research other than my nearly 40 years of observation, my experience does mirror Gladwell's research. With many business models, it takes two to three years to reach competency and five years to achieve mastery. Many franchisor training programs are one to two weeks, and ongoing support means "call me when something breaks or you have a question."

Sandler is a franchisor of selling sales training and coaching services, and are adult education experts. They apply the same level of care to a franchisees' training and development as franchisees do to their clients. That's why they have been successful for 50 years and their average franchisee has renewed their franchise agreement twice.

## **Resourcing**

A man once said, “A man is only as good as his tools.” Similarly, franchisees are only as good as their tools, processes, and systems. Too often, franchisors confuse processes and systems with “helpful suggestions” and “opinions.” Their systems are not fully planned out and integrated into a business unit. We frequently see this with local marketing programs. Often, their operations and marketing manuals look like menus at a New Jersey diner, meaning pages and pages of options, but fewer hard and fast systems.

## **Leading a Team of Entrepreneurs**

Franchisors often confuse command and control techniques and compliance cultures with leadership. Too many franchisors rely on authority, meaning franchisees have to follow rather than lead, meaning they choose to follow. Too often franchisors believe it’s “my brand, my customers, my systems, and my territory,” thus putting franchisees in a subservient position, akin to a sharecropper. Later in this book, I show you how to spot a servant leadership culture designed to empower franchisees and lead other leaders, which works well in franchising.

## ***The Brand as One Body***

Oddly enough, perhaps the best definition of franchising was written 2,000 years ago by the Apostle Paul of Tarsus. As you read this, think of a franchise as one body consisting of several members: the franchisor (the parent company), the franchisees (business owners), and the suppliers and customers.

The body does not consist of one member but of many. If the foot would say, “Because I am not a hand, I do not belong to the body, that would not make it any less a part

of the body.” And if the ear would say, “Because I am not an eye, I do not belong to the body,” that would not make it any less a part of the body. If the whole body were an eye, where would the hearing be? If the whole body were hearing, where would the sense of smell be? . . . If all were a single member, where would the body be? As it is, there are many members, yet one body. The eye cannot say to the hand, “I have no need of you,” nor again the head to the feet, “I have no need of you.” On the contrary, the members of the body that seem to be weaker are indispensable. . . . But God has so arranged the body, giving the greater honor to the inferior member, that there may be no dissension within the body, but the members may have the same care for one another. If one member suffers, all suffer together with it; if one member is honored, all rejoice together with it.

While many franchisors may embrace this definition, not all do. The founder and CEO of a successful national franchisor recently spoke at a national convention for franchise executives. During his presentation, a member of the audience asked, “How do you resolve conflicts with your franchisees?”

He proudly threw his shoulders back and chest out and proclaimed, “When push comes to shove, the franchisees know this is my company!”

This CEO was a type A, confrontational personality. He had little awareness that his approach to franchising actually causes the pushing and shoving he spoke of. In these tough economic times, franchisees and franchisors need to fight the competition for market share, not each other for power and control.

## ***The Business of Franchising: The Bottom Line***

A franchise agreement does not define franchising any more than a marriage certificate defines marriage. A franchisor or franchisee feels compelled to pull out their franchise agreement only when trust breaks down. Franchising only works when both franchisees and franchisors share a deep concern about the other's interests. Franchising is as much about committed interpersonal relationships as it is business systems.

I believe the business of franchising is a two-metric business:

- The strength of unit-level economics and consistency of franchisee profitability
- The quality and trust level of the franchisee-franchisor relationship

These themes are fully described later in this book.

## **Why Do Companies Franchise?**

There are several reasons why companies choose to franchise. This section discusses them at length.

### ***Franchisors Taking the High Road***

Responsible franchisors who take the high road possess multiple options to expand their business. They had a proven business model that produced great results, including replicating their success in other markets. Possible expansion strategies included bringing in investors, raising capital, and expanding through the chain method (where the parent company would own all the individual distribution points) or restructuring their companies and expanding it through franchising.

They chose franchising because franchising could provide them with advantages that the chain method could not.

The first competitive advantage that franchising can offer companies is stronger tactical execution of their business model by having highly skilled and motivated entrepreneurs run point on the implementation rather than perhaps less skilled, less invested company managers. An entrepreneur with their dreams and money at stake will usually try harder and therefore produce greater results than an employee with a bonus and job security at stake.

Second, franchising is a financing vehicle. Rather than having to raise millions of dollars to expand their business, franchisors leverage the franchisees' ability to raise their own capital through the SBA (Small Business Administration), home equity, ROBS (401K rollover), family, and other sources.

Third, a franchise is typically better positioned to grow more quickly than a company that chooses the chain method of expansion. It's been said, "Timing is everything." Good businesspeople know that when a market opportunity presents itself, it must be seized. Franchising offers a brand greater speed to market, which is important if the brand stands the risk of losing a beachhead to local or regional competitors starting copycat concepts.

Fourth, franchising can be lower risk for the brand. Franchisors earn fees (royalties) that are paid by the franchisees typically from gross sales, not cash flow. Additionally, the startup capital of the new business is the franchisees' risk, not the franchisor's. Although the franchisees assume much of the financial risk, the franchisor is dependent on the continuing royalty stream paid in by franchisees. Additionally, franchisors will not grow if the franchisees are not making money and achieving great results. Therefore franchisors have a vested interest in helping the franchisees become profitable, but they don't take the hit if they fail. The franchisor's revenue stream is

diversified by collecting royalties off the top line of many franchisees rather than the bottom line of fewer controlled investments.

Fifth, they want to share their successes and make a difference in the lives of others. Most franchisors are deeply committed people who love to see their teammates win.

Lastly, franchisees have a collective genius that is hard to replicate in a chain method. For instance, a McDonald's franchisee thought of the Big Mac. Co-founder of Jiffy Lube and current president of Babson Business School Stephen Spinelli talked about how a franchisee solved a major problem for Jiffy Lube, which at the time was inventing the fast oil lube category. Labor cost fluctuated all over the place, depending largely on how easy it was for the technicians to remove the existing oil filter. Some filters were screwed on too tight from previous auto service providers, making it very difficult to remove, driving labor costs up and destroying margins. When examining labor cost, one franchisee seemed to show more predictable and acceptable labor costs than other franchisees experienced. Jiffy Lube support visited his location. They found he had invented a wrench with a canvas strap that the technicians would slide over the auto filter and pop it right out, regardless of how it was previously installed. The wrench was patented and distributed to all the other franchisees and added to the required equipment list for all new franchisees. Without the strap wrench, Jiffy Lube might never have gotten to the size and scale it is today.

### ***The Low Road to Franchising***

Many unethical and irresponsible franchisors get into franchising because some consultant or attorney in a blue pinstriped suit and a snappy red power tie told them that they could get rich using other people's money. And for only \$150,000 to \$250,000 they will show them how!

You can spot a “low road” franchisor by the following indicators:

- They are undercapitalized. Their financial survival of their company is completely dependent on the short-term revenue from selling franchises instead of long-term revenue from collecting royalties. There appears to be no other source of expansion capital available. They have to sell you a franchise to survive.
- They have not been in business more than five years or do not have a proven business model. They expect you to invest your money for the privilege of proving their business model for them.
- They have never expanded in multiple units and therefore have not proven they can replicate their success. They are expecting you to jump at the opportunity to let them experiment with your money while their cash sits in their bank – assuming they have cash at all.
- Their unit economics do not provide them with a healthy enough return to expand by investing their own money. Yet somehow they believe it is good enough for you.
- They don't interview you for the franchise to determine the fit as they would if they were making a key management hire. They sell franchises as if they were selling a car or vinyl siding.
- They are hyper-focused on selling franchises rather than making franchisees profitable, with the intention of selling to private equity and securing plum speaking slots at franchising conferences and events.

One time the founder of a fitness franchisor was looking for assistance in recruiting franchisees. When I reviewed the franchisor's financial statement, it showed the franchisor had a corporate worth of \$25 – no kidding, 25 bucks! I have lost more money in my sofa

cushions than the franchisor had in their whole company. Surprised, I asked, “Does this financial statement accurately reflect your financial position or do you franchise under a shell corporation?” Keep in mind, many franchisors are private companies, and as such their attorneys and accountants advise them not to keep large assets in their corporations. That is why many franchisors are actually stronger financially than they appear on paper.

However, this man responded, “That is all I have.” Sadly, I rejected this good man because he was already out of business. He was not in a financial position to be able to support franchisees and grow his company.

This franchisor only had 25 bucks because some consultant clipped him for all he had to set him up as a franchisor. The founder had the noble intention of curbing the out-of-control obesity rate in America and promoting active and healthy lifestyles. This did not happen. Saint Bernard of Clairvaux once said, “The road to hell is paved with good intentions.”

Many franchise consultants and attorneys are respectable people and good at what they do. Just as there are a small number of franchisors who prey on the dreams and best intentions of gullible prospective franchisees, there are a small number of consultants and attorneys who prey on the dreams and best intentions of prospective franchisors. Both predators are a stain on franchising.

### ***Spotting a Responsible High-Road Franchisor***

Ask a franchisor what business they are in. While every franchisor distributes its own brand of products and services, as I said, the franchise business model is a business unto itself.

My first job in franchising was in 1985 when I joined Subway. At that time they had fewer than 400 restaurants and were open in about 20 or so states and had no international units. Subway is

in the business of selling sandwiches. However, didn't thousands of restaurants, diners, and delis across the United States also make sandwiches a staple item on their menus? Think about it. Any of these restaurants could have been "Subway." The difference was that Subway founder Fred Deluca saw sub sandwiches as an opportunity to build an international brand and change the way the world eats. Others simply saw sandwiches as meat between two slices of bread.

As you investigate franchises, you will find that brilliant business models are a dime a dozen. However, brilliant franchisors are few. It takes a brilliant franchisor to build a strong regional or national brand.

If you were to ask CEOs of franchise companies, "What business are you in?" you'd probably hear about the products and services they distribute, such as "I'm in the auto repair business" or "I'm in the business of home furnishings." You'll seldom hear, "I'm in the franchising business."

Before investing your savings in a franchise, you may want to make sure you're doing business with a franchisor who knows they are in the business of recruiting, training, developing, resourcing, and leading a team of entrepreneurs to build a brand. Most people investigating franchises examine the franchisor's effectiveness in distributing their products and services, but few people look to determine whether the franchisor is skilled in the business of franchising, and wind up licking their wounds later.

## **How Franchisors Make Money**

A typical franchisor makes money two or three different ways:

- **Franchise fee revenues.** The franchisor charges franchisees upfront fees typically ranging from \$35,000 to \$50,000. This is not a big moneymaker to most franchisors. For the vast majority of franchisors, this fee doesn't cover, or barely covers, the

cost of running their internal franchise sales departments. In other words, awarding you a franchise is often a break-even proposition for the franchisor. By the time you write the franchisor a check for your franchise fee, chances are they have already spent that money in advertising and departmental costs trying to find you. Franchise fee revenue is nonrecurring revenue, meaning the brand only realizes this revenue once, where royalties are recurring. The enterprise value of any franchisor is tied to the predictability of their recurring royalty streams. This means franchisees must be successful so they keep paying royalties, which creates some financial alignment. Be wary of franchisors that take big upfront fees (over \$50,000), but do not produce the results or provide services to justify this investment.

- **Royalties.** Franchisees pay franchisors a percentage of their gross revenue typically ranging from 5 to 8%. Fees could be higher, but higher fees should reflect more services. Express Personnel, for instance, charges higher fees; however, they manage the entire backroom payroll operation for their franchisees. So a portion of these royalties minimize your risk, simplify your operations, and reduce your labor cost. On the other hand, some franchisors make more of their money selling inventory and proprietary products to franchisees and less on royalties. This is common in the frozen dessert category and franchises with patents and proprietary products like Chem-Dry Carpet Cleaning. Continuing fees, such as royalties or product purchases, are the lifeblood of a franchisor's business. Brilliant franchisors are in the business of maximizing continuing fees, *while at the same time maximizing franchisee results*. To maximize revenue from continuing fees, they must first be brilliant at developing peak-performing franchisees. This means they win big when you win big.

- **Products.** As I touched on, some franchisors are also vendors, selling proprietary products and services to their franchisees at a profit. Companies like Ben and Jerry's have exclusive vendor relationships with their franchisees. Having a franchisor who is also an exclusive vendor is not necessarily a bad thing, but it can be. Once, co-founder Ben Cohen did a national tour called the "Pants on Fire Tour" where he traveled the country accusing then President George W. Bush of being a liar. I would not have wanted to be a franchisee operating in the same city as one of his tour stops when he was indulging in political controversy.
- **Miscellaneous fees, such as technology fees and marketing fees.** These fees can either deliver high value such as creating media co-ops and purchasing advertising no one franchisee could afford on their own, or these can create operational burdens. One national convenience store chain once required all franchisees to implement a broken POS system that was proven to lose customer transactions to pad the president's resume so she could get promoted to another division. Franchisees were forced to comply, and customers received free gas as a result.

Out of these revenue streams, royalties and (for those franchisors who are also vendors) product sales should be most important to the franchisor. Again, be wary of franchisors whose financial statements show they need the upfront franchise fee revenue to survive. They will be tempted and probably will succumb to the financial pressure of awarding franchises to marginal candidates who have a higher probability of failure. Franchisors whose franchisees fail will probably not survive as franchisors. A franchisee failure is a black mark against the brand for customers, suppliers, and other surviving franchisees.

## ***The Only Way for Franchisors to Maximize Recurring Revenue***

If a franchisor is truly in the business of maximizing royalty and product sales revenue, how will they accomplish this? Who are they counting on? Don't peak-performing franchisees sell the most products and services to their customers, and therefore pay the highest royalties and purchase the most products from the franchisor? Don't peak-performing franchisees do a better job at making money for themselves, creating job satisfaction for themselves and their employees, and taking care of their customer needs? For these franchisors to be successful, doesn't it mean they must dedicate themselves to driving your competency and productivity? Can you see the potential for a win/win? However, don't assume because franchising works best as win/win, that franchisor executives in authority are always operating from there or have the skills and experience to deliver.

### **Irresponsible Franchising: A Failed Philosophy**

Once, I huddled with a bunch of veteran franchisee recruiters to talk about franchising. A vice president of franchise sales from a large national automotive franchisor shared his views.

He boldly proclaimed, "It is not my job to qualify any franchise candidate looking to invest in my brand. I will give anyone their God-given right to fail." This person thought it was his responsibility to take money from anyone with the financial capital and interest in opening a business, regardless of their background, skills, and aptitudes. He absolved himself of all personal responsibility for how well the franchisees he recruited performed; instead he believed it was God's job to sort it out. This is a violation of the sacred trust that is franchising.

Later in the conversation he was whining about not being able to find a competent administrative assistant. I asked him why he didn't just grab the first person off the street and give them their God-given right to fail. He didn't think it was funny, but I had a good laugh at his expense.

You may be surprised to learn how many franchisors award franchises to franchise candidates whom they wouldn't hire to manage the same business. And in tough economic times, sometimes franchisors need the money from the upfront franchise fee to sustain their operations and make payroll and will deal with what they call "operational problems" later. Keep in mind that "operational problems" is franchisor-speak for failing or underperforming franchisees.

Ultimately, if your investment as a franchisee is going to pay out, you must successfully accomplish two things:

- **Find the right franchise** for you that best utilizes your skills, capital, and experience and helps you actualize your potential and delivers the results you are looking for.
- **Find a successful franchisor** who possesses the capital, vision, commitment, culture, and talent to build a meaningful, sustainable brand that customers and suppliers believe delivers high value.

## **Finding a Responsible Franchisor Who Gets It**

You should get a good indication of whether a franchisor has your best interests in mind by the quality of their franchise opportunity website and the quality of your interactions with the brand's franchise recruiter.

- Their franchise opportunity website has enough transparent information to help you understand what the business is, what the brand stands for, what it takes to win, what the financial commitment is, what average returns look like, and the work history of those running the show. The information isn't riddled with unsubstantiated claims like "Other brands can't compete with us" or "We are the best in our industry," with no data to support these self-serving accolades.
- Franchisee recruiters possess a clear understanding of the individual traits, background, and capital franchise that candidates must have to succeed in their business model. They conduct a thorough interview with you to determine how closely you fit their profile of a successful franchisee. They educate you online and/or through conversations about what you need to be prepared to do each day to succeed as a franchisee. The recruiter doesn't sell the opportunity. They interview, qualify, and educate you. You should not be faced with high-pressure sales techniques or with wondering if the recruiter is someone you can trust.
- Recruiters work with you to follow a clear, step-by-step franchisee investigation process. Both you and the franchisor know where you are in the process and what additional steps need to be taken. If they don't have a clear step-by-step recruitment process, they probably don't have a clear, well-thought-out, easy-to-follow business model either. Dismiss them as an option.
- When you ask franchisees, "Knowing what you know now, would you make the same investment decision again?" more than 80% of franchisees should answer a definitive "yes." Otherwise, my research shows this company will soon be a turnaround brand, which is not where you want to put your time and money.