



The ten most deadly

MISTAKES

**to Avoid When
Franchising
Your Business**

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Before you proceed with franchising your business you should take the time to appreciate the main reasons why new franchises fail and how you could navigate these potential pitfalls. This is drawn from our 30 years of franchising businesses just like yours!





Probably the most well-publicised reason for franchise failure is greed.

The pursuit of a quick buck has led to many spectacular crashes, leaving a trail of bitter, disappointed and broke franchisees. Franchisors often fail to recognise the importance of creating a strong community within their franchise network. It is important to establish a support network within the franchise system that will afford franchisees the opportunity to learn from and support one another, especially during difficult times. Such an infrastructure will be particularly helpful to new franchisees entering the market.

A communication system that provides the franchisor with regular feedback on aspects that needs to be improved or implemented, and

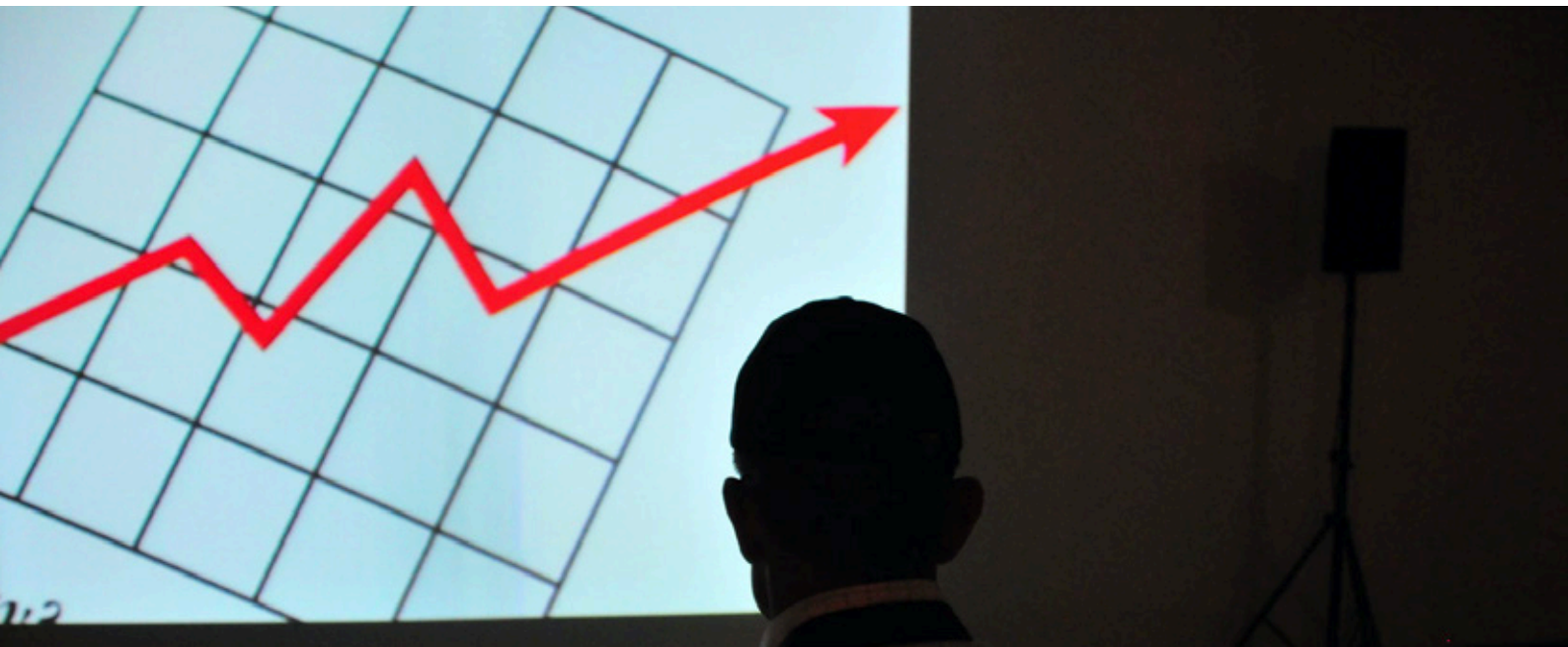
what is not working at that point in time, is also important. The benefits of the franchise business model are appealing to entrepreneurs. Why wouldn't it be? If you've already built a successful and profitable business, why not expand it using franchisees' capital and investment to become bigger and better? But franchising a business isn't as easy as many business owners believe it to be. Lack of preparation for the challenges that lie ahead lead to many wannabe franchisors making the same common mistakes. The good news is that these potential pitfalls can be dodged if you are aware of them, plan well in advance and get support from the right people.



1.

Perfected and Proven

A business must have an established track record with proof of profit potential before franchising can be considered as a means of expansion. So, you should not franchise before you have perfected and proven the concept.



A franchisor should be a model example to their franchisees, many of whom are making their first foray into running a business. Whether they're at the head of a childcare franchise or sports franchise, the

best franchisors have a proven track record as a business owner, or have enjoyed a great career in your franchise's sector (ideally both). They should have overcome the challenges you're about to face



as a business owner and will have plenty of advice about how you can tackle them. And franchises that see sustained success even through tough periods are generally steered by franchisors that have braved similar conditions before, as they can give first-hand advice.

Truly successful franchisors will provide ongoing support with everything from business management to technical guidance and marketing. They should promote the resources and support services that are in place and clearly guide you to them, rather than making it hard to get help. As we've said before, franchising is a

more supported route to business ownership. If a franchisor always leaves franchisees to fend for themselves, they're limiting your chance to succeed.

Franchisees will work best when they know their franchisor respects them. Good franchisors should recognise that because franchisees work more closely with customers than they do, they can provide valuable insights. For example, the Big Mac and Filet-O-fish sold by McDonald's were developed by franchisees.



2.

Greed

Franchisors become greedy and try make additional money, unfairly, from product supply and the acceptance of rebates instead of driving the price down. The main profit driver in franchising should be royalties on sales, this multiplies as the network grows. Profiteering from product supply is not sustainable, the franchisor's role should be to get franchisees the best possible price on product supply so that they have profitable businesses.



Franchisors should provide an initial training scheme. This should last anywhere between a day and several weeks. Outside of this established programme, franchisors could offer assistance with site selection, lease negotiation, site set-up, financing and recruitment. Some franchises are geared towards

experienced businesspeople, so the support package may be more hands off, but any franchise worth investing in will at least have on-boarding training to welcome you to the network.



3.

Investing in Sound Franchise Advice

Doing it alone - Failing to consult with an experienced attorney before signing the dotted lines can lead to problems later. How2Franchise is always here to help, any questions you have feel free to ask. Building a franchise business model can be complex. Possibly the worst mistake that you could make when just starting out is ignoring sound franchise and legal advice. The main reason that many entrepreneurs give for not seeking legal advice is the high costs that are associated with appointing a franchise consultant. That is why our programme has low set up costs.



Yes, starting a franchise business takes a lot of investment, but avoiding the cost of a reputable franchise consultant at this stage, may just cost you more in the long run; both financially and emotionally. It's too much of a risk to cut corners when it comes to making franchise decisions (and there's lots of them) so find a good consultant that specialises in franchising. No matter how much it costs, you can sleep well at night knowing that you've enabled your franchise business to get off to the best possible start.

Skimming the legal paperwork

- Ensure you fully understand your documents and franchisee agreement

Failure of a franchise would reflect negatively on the reputation of the franchise with banks and property owners. It's therefore critical that franchisors ensure that site assessments are done properly for each new outlet to prevent franchise failure due to a bad location.



4.

Sells A Franchise Instead of Awarding A Franchise



Many new franchisors get caught in a trap of needing the cash injection of upfront fees to survive. Therefore, they will sell a franchise to any applicant with sufficient funds. However, it's important

to ensure that the franchisee has the right personality type for franchising and also that there will be a fit with the organisational culture of the franchise. Poor selection techniques when selling



franchises is another contributing factor to franchisor failure. This could also be related to the greed factor, in cases where franchisors sell franchises indiscriminately to boost their own cash flow situation. Selling franchises is fine, but for the long-term sustainability of the system it pays to be selective when choosing new franchisees. Get your franchisee selection wrong and it won't be long before disgruntled franchisees quit simply because it was not their cup of tea, and it is certain that when these franchisees speak to others about your franchise, it will not be portrayed positively. There is also the possibility that other franchisees

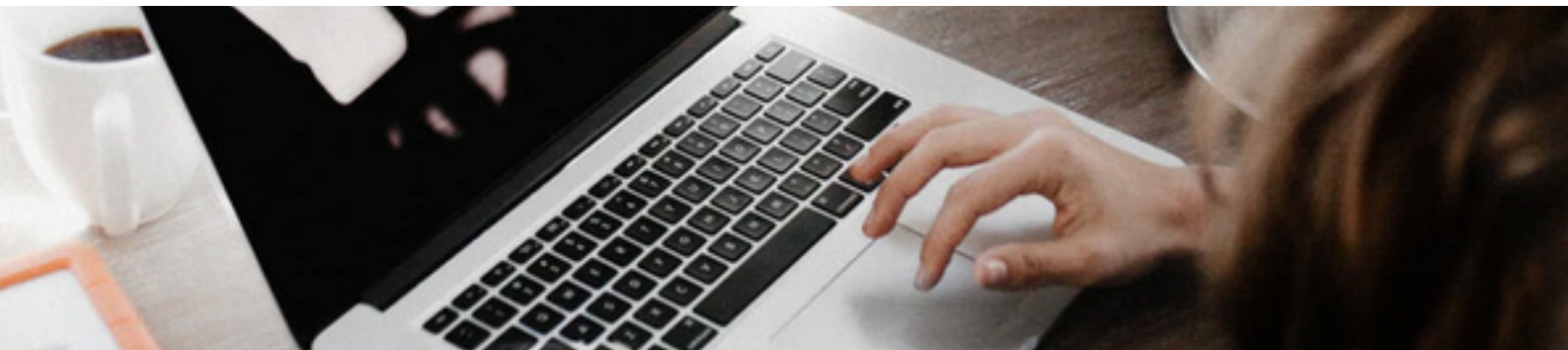
who find themselves on the fence or who are navigating a rough patch will get caught up in negativity generated by these franchisees and will talk themselves into failure. Bear in mind that in franchising, rightly or wrongly, the situation can quite easily devolve into a 'You vs Them' scenario. It is simply the nature of the beast — even though your overall goal is the same, the two entities — franchisors and franchisees — essentially have different aims and ambitions.



5.

Training Is Not Sufficient

As with any form of management the more you resource training the better the results. Your franchise network can help here. You must learn to make use of this resource. Bring your franchisees into your management structure. Many franchisors focus on operational training only, whereas business management training is also critically important to ensure that the franchisee is capable of managing a small business. The initial training should cover all aspects of the franchise business.



Franchisees return from their initial training enthusiastic about making their mark on the business world, but when situations arise that they are ill-equipped to handle, they are left feeling incompetent and inferior. As they are probably also harbouring doubts about their franchisor, they have no-one to

turn to. Unsatisfactory training or an inability to adequately assist them with day-to-day operational matters could lead to a loss of trust and confidence. From here it's usually just a matter of time before they are lost to the franchise system altogether.



6.

The Monitoring And Support Structure

It's important that franchisee support staff act as business consultants to the franchisee, monitoring financial performance, marketing and administration of the franchise to ensure that the franchisee remains sustainable. Monitoring of standards is important but should be complimented by business consulting assistance from the franchisor.



Franchisors that fail to continuously test and measure the performance of their franchisees often only realise there is a problem when it's too late. The secret is to have systems in place that measure their performances on a regular and

ongoing basis; that way all that is needed is a small tweak here and there to keep them on track. It's often more efficient and less painful to make a series of small corrections than one large one. It's also less costly.



7.

Keep Up to Date In Times Of Significant Change

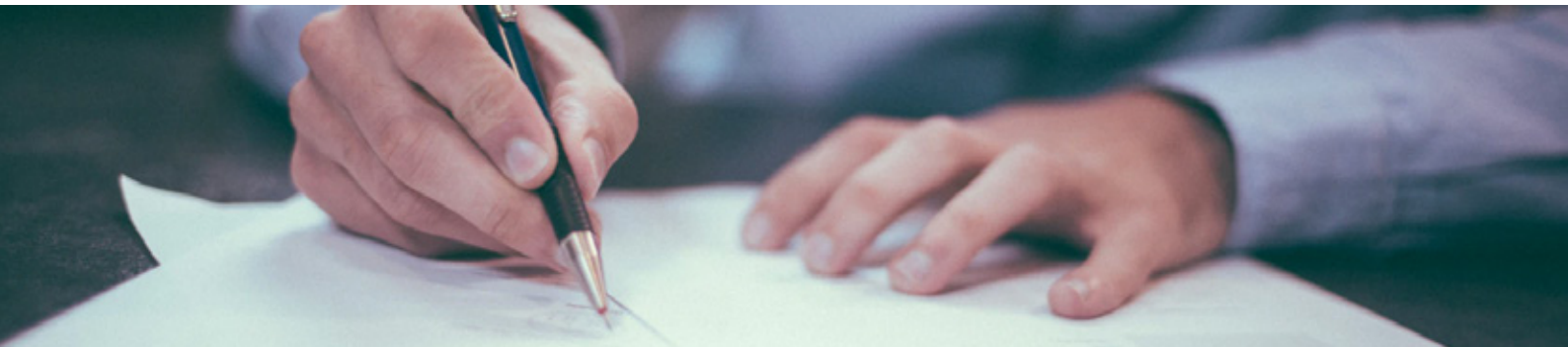
Disruption has become the norm in business and it's the franchisor's responsibility to ensure that the business concept remains relevant to the market and that it is adapted as needed. Failing in this regard could lead to failure of the brand. A lack of new product research and development is another major contributor to franchise failure. It is imperative to keep pace with the changing business environment and to equip franchisees with the tools necessary to compete and stay competitive in the marketplace



8. ■

The Operations Manual/System Is Not Kept Updated

An operations manual should be a living reference tool that adapts to changes in the business environment. If it's not kept up to date and doesn't add value to franchisees, they will ignore it and the basic operational standards represented by it. The best way to counter this is to review the operations manual regularly and to publish it online for franchisees to ensure that it's user friendly.



As with any successful entrepreneur, a great franchisor should know their sector like the back of their hand. Even if the franchise isn't directly related to their previous career, it should be obvious that your franchisor is keen to keep on learning and makes market

research and sector-specific learning a priority in their weekly schedule. And your franchisor shouldn't just be constantly learning and reading – the most successful franchisors share industry research with their networks so that everyone can continue to grow.



9.

Poor Communications

Franchisors who are not in touch with franchisee needs and who disregard feedback from their network stand to lose out on a good relationship and valuable feedback from franchisees that could add value to the business. One way of staying in touch is to conduct regular franchisee satisfaction surveys, a service readily available from a number of specialist companies at great prices. A strong reason why franchise systems fail is that they neglect to develop meaningful relationships with their franchisees and the result is a breakdown in communication in the true sense of the word. Conflict, when not handled properly or left unresolved, will likely lead to litigation, which no-one really wants.



You will have spent years of blood, sweat and tears to get your business to a point where it's able to be franchised. Long hours, lack

of holidays and sleep have been invested into your business, and quite rightly, you're protective of it. The dedication and determination

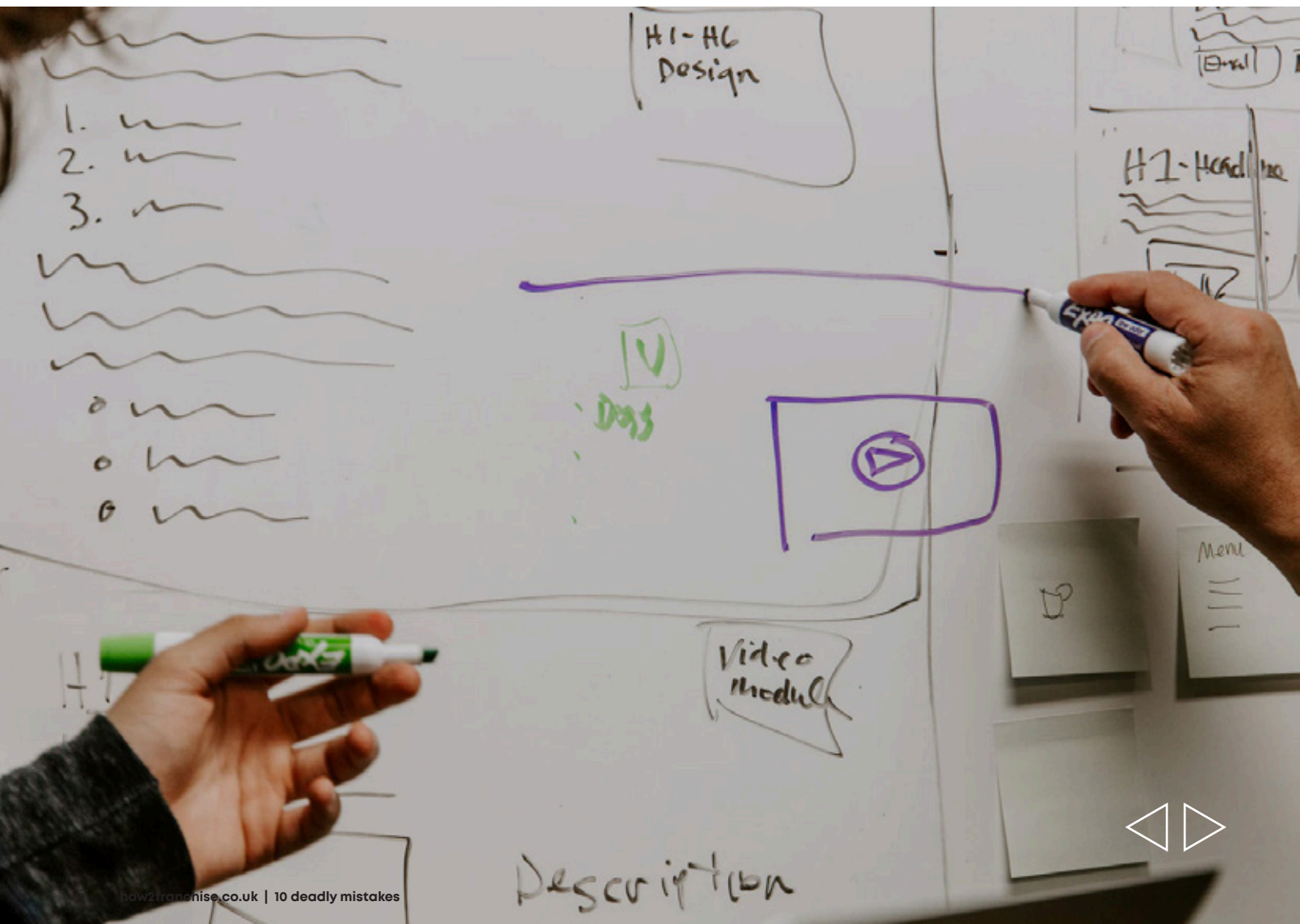


that initially contributed to your success may now be the attributes that are preventing you from wanting to relinquish control of your business. Don't worry, you're not alone, but you must ensure that this passion doesn't lead to the inability to listen to others.

Over time, you may need to innovate to keep up with other franchise brands in your sector. If you can't listen to feedback from your franchisees and customers and evolve, then you may be

holding back the growth of your beloved business. Be open and willing to accept advice when necessary.

The franchise business model only works if a business can be replicated, but how do you replicate one of the biggest assets that your business has: you? The truth is you can't. The experience, expertise and personality that you injected into your business to make it a success won't be able to be taught to others; but you need to try.



10.

Poor Marketing/Neglecting Brand Development

A valuable brand is one of the main value drivers in a franchise and a reason that franchisees sign up to the network. Not investing in brand development and marketing is detrimental to a franchise, as competitors are sure to catch up and fill the void quickly.



Successful franchise brands are glued together by the strength of their business concept. Being able to effectively communicate what

your business stands for is the first box to tick when considering franchising a business. If there is any doubt about your brand, customers



won't 'get it' and franchisees will use creative licence to improve the strength of the brand.

This results in lack of consistency within the franchise which ultimately impedes the overall success of your franchising venture. Ensure you create a strong, simple and clear brand that doesn't need to be explained. Get this right and it will become the backbone that runs through your whole business.

As a franchisor, you not only have to worry about attracting customers, but also how you appeal to quality franchisees. Both are crucial to the success of your franchise.

Ensure you use a mix of traditional and digital marketing techniques so that people know about your business, and why they should choose you over the competition. You don't want to work hard to get everything right for your new franchise, if you then fall at the final hurdle. The best way to ensure that you only recruit the best individuals as your franchisees is to remove any pressure to make quick decisions. Have adequate capital in place to give you breathing space to move at a slower, more measured pace to choose the best possible franchisees.



In conclusion

A franchisor should be a model example to their franchisees, many of whom are making their first foray into running a business. Many entrepreneurs choose to start a business through the franchise model because it is a less risky venture than starting a business from scratch. But if a franchisor can't fulfil the role of mentor and role model because they lack experience and knowledge, franchisees won't gain as much from joining their network.

One of the most appealing things about a franchise for customers is that you know what you're getting. Order a Meatball Marinara from

any Subway and you'll get virtually the same look/feel/taste every time. This consistency builds customer loyalty and satisfaction, as they'll feel confident they can use any location of a franchise to replicate a positive experience. What's more, it makes a franchise look like a slick, professional operation rather than a loose collective of entrepreneurs.

Franchisors should strike the right balance between protecting and championing their brand and being overly protective. However, a great franchisor gives franchisees the independence and flexibility to build their business on their own terms too. They should be confident they



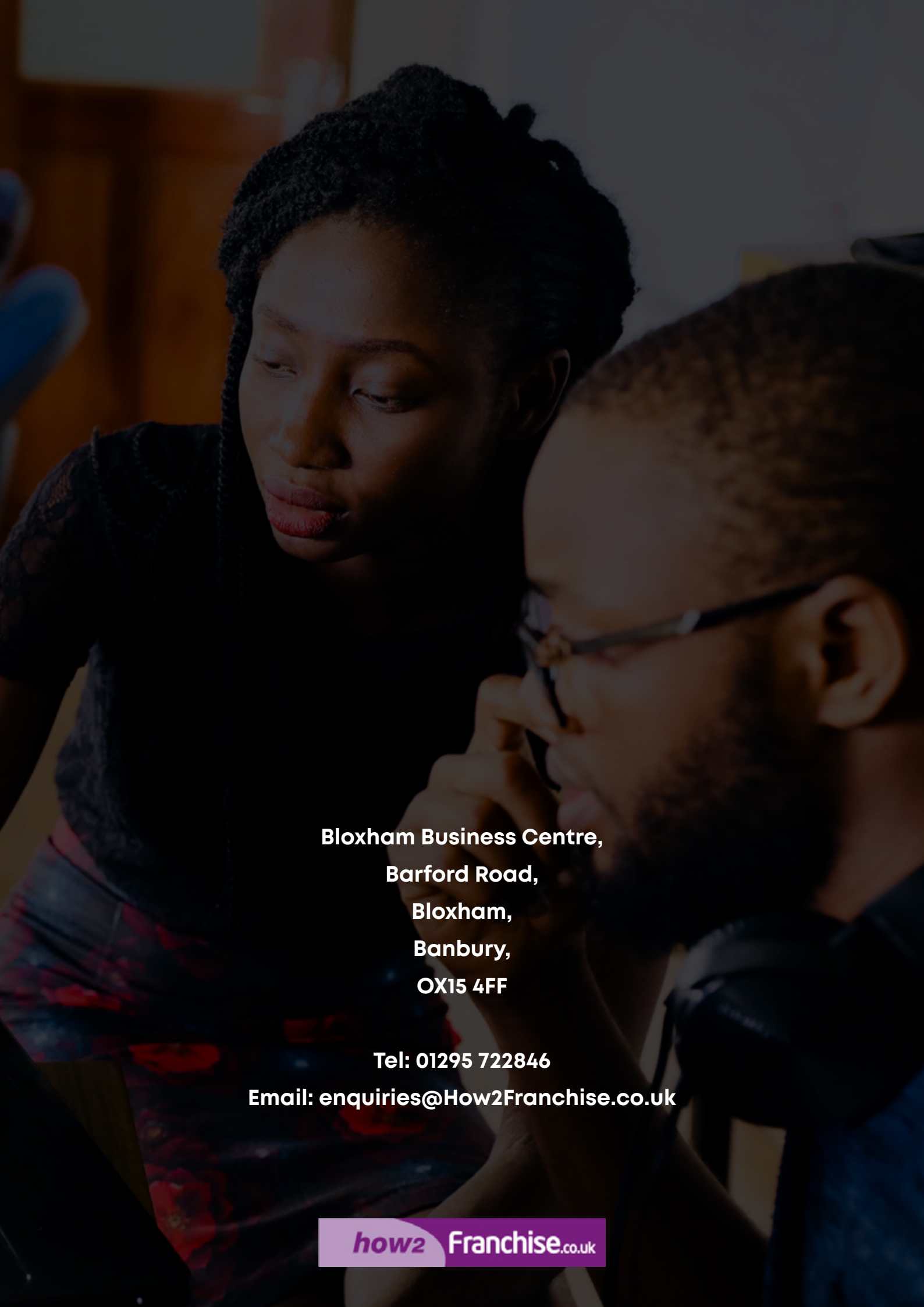
selected the right person/people for the job and the franchise's core values are already instilled in them. Allowing each franchisee's personality to come through as they provide the franchise's service will make it easier for them to build genuine customer relationships, as each interaction will feel personal rather than corporate.

Therefore, prioritising open and honest communication is a must for franchisors. This not only benefits them, as they gain ideas to boost profitability, but also franchisees, who will be instilled with a higher level of motivation and morale once

they know that their franchisor will take the time to discuss any ideas or issues with them. If it is not possible to arrange meetings in person, franchisors could arrange regular conference or video calls.

Contact us for an obligation free appointment, whether to discuss your new franchise or how to rectify problems in your existing franchise network.



A woman with braided hair and a man with glasses are looking at a laptop screen in a meeting. The image is dimly lit with a dark overlay.

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