MY FRANCHISE PARTNERS

12 Criteria of Franchisability

While it is impossible to determine the franchisability of a business concept without a significant amount of analysis, My Franchise Partners has identified 12 criteria that help us assess the readiness of a company for franchising and the likelihood that it will achieve success as a franchisor.

Credibility

To be successful as a franchisor, a company must be credible in the eyes of prospective franchisees. Credibility can be demonstrated in a variety of ways: organization size, number of units, years in operation, look of the prototype unit, publicity, consumer awareness of the brand, and management strength, to name the more prevalent criteria.

Differentiation

In addition to credibility, a franchisor must be adequately differentiated from its franchised competitors. This can come in the form of a differentiated product or service, reduced investment cost, unique marketing strategy, or differentiated target markets.

Transferability of Knowledge

The ability to teach the business system to others is the next criteria. To franchise successfully, a business must be able to thoroughly educate a prospective franchisee in a relatively short period of time. As a rule of thumb, if a business is so complex that it cannot be taught to a franchisee within three months, a company will likely experience difficulty franchising. More complex franchisors offset this challenge by targeting franchise prospects that are already educated and experienced in their field.

Adaptability

Next, can your concept be adapted from one market to the next. Some concepts do not adapt well over large geographic areas because of regional preferences in consumer tastes. Others may be constrained by varying state laws. Some concepts work well because they are in a unique location, and some work because of the unique talents of the individual behind the concept. Finally, some concepts become successful only after years of perseverance and building enduring relationships.

Refined and Successful Prototype Operations

A refined prototype is necessary to demonstrate the system is proven. It is also instrumental in the training of franchisees. The prototype acts as a testing ground for new products, new services, marketing techniques, merchandising, and operational efficiencies. The exception to this guideline is companies who are built on the direct sale of a proprietary product or service.

Documented Systems

Successful businesses have systems. In order to be a succeed as a franchisor these systems need be documented in a manner that communicates them effectively to the franchisee. A franchisor will need to document its policies, procedures, systems, forms, and business practices in a comprehensive and user-friendly operations manual and/or computer-based training module.

Affordability

Affordability is simply the ability of a franchise candidate to pay for the franchise. This is as much a reflection of the candidate as it is of the actual cost of opening a franchise.

Return on Investment

A franchised business must be profitable. But more than that, a franchised business must allow enough profit after a royalty for the franchisee to earn an adequate return on their investment of time and money. Profitability is relative, it must be measured against investment to provide a meaningful number. In this way, the franchise investment can be measured against other investments of comparable risk that compete for the franchisee's dollar. Ideally, the franchisee can achieve a ROI of at least 15% as owner-operators, and 20% for area developers, by the second to third year of operations.

Market Trends and Conditions

These trends and indicators are key to long-term planning for any business. Is the market growing or consolidating? How will that affect your business in years to come? Will your products and services remain relevant in the years to come? Will on-line consumerism affect your business? What are your franchised and non-franchised competitors doing? How will the competitive environment affect your franchisee's prospects for long-term success.

Capital

While franchising is a low-cost means of business growth, it is not a no-cost means of expansion. A franchisor needs the capital and resources to effectively implement a franchising program. The resources necessary to effectively implement a franchise program will vary depending upon the scope of your expansion plan. If a company is looking to sell just one or two franchised units, the necessary legal documentation may be completed for as low as $20,000. For franchisors targeting aggressive marketing, with personnel added to the mix, a franchisor may require a budget of $125,000 or more to reach its expansion goals.

Commitment to Relationships

Successful franchisors focus on building long-term relationships with their franchisees that are mutually rewarding. Unfortunately, not all franchise organizations understand the link that exists between relationships and profits. Strong franchisee relationships enable the franchisor to sell franchises more effectively, introduce needed changes into the system more easily, and motivate franchisees and their managers to provide a consistent level of products and services to their customers.

Strength of Management

Finally, the single most important aspect contributing to the success of any franchise program is the strength of its management. My Franchise Partners has found that the single most common contributor to the failure of emerging franchisors is understaffing or a lack of experience at the management level. Too often, new franchisors will try to take everything on themselves. In addition to absorbing several new jobs for which the franchisor has little to no time, the franchisor needs to exhibit expertise in fields in which they may have little or no experience: franchise marketing, lead handling, franchise sales, ad fund management, training, and multi-unit operations management.

An appropriate first step in the decision to franchise is an examination of the question of whether or not a business concept can actually be successfully franchised. Any organization seriously considering franchising should undertake this analysis before implementing a franchise strategy.

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