

Facing your franchising fears

IS THE FRANCHISE MODEL A GOOD FIT FOR YOUR BUSINESS?

Your business has been running smoothly for years, you've opened several other company-owned stores, and people ask you every day how they can get involved with your brand. Your company has reached a turning point in its lifecycle of growth. You could hold steady with the stores you have, expand with a company-owned model — or you could consider franchising. For most CEOs, franchising is a scary word. It comes shrouded in baffling regulations, endless documents and so many other moving parts. Ultimately, many decide that it's not worth the hassle. But for those who do dive into the world of franchising, there are rewards to be found — so long as they do it right.

THE INSIDERS



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WHO SHOULD FRANCHISE?

When you look around any city, the obvious franchises stand out. Food chains make up a great majority of the franchising industry, but they aren't the only businesses that can benefit from this growth model. FranNet franchise business consultant Heather Rosen works with franchisees across the DC area. "There are over 90 different industries where you find franchises," she says. "That's surprising to a lot of people." In fact, franchises are prominent in almost any sector of the market, from the auto and retail industries all the way to fitness and B2B. Some franchisees in the service category are even able to work from home.

WHO SHOULDN'T FRANCHISE?

Though industry shouldn't play a restricting role in the world of franchising, according to experts, a few things should. A company starting out needs to have a few ducks in a row before it can even think about creating a franchise system. James A. Goniea, partner at Philadelphia's Wiggin and Dana, says, "If someone comes to me and says, 'Look, I'm thinking of going into franchising. Do you think this will work for me?' the things I'm looking for are: Do you have three or four open units under your brand, and have you shown that it can work in different locations and in different circumstances?"

In addition to proven success in the industry, having a reproducible model is key, says Michael Einbinder, founding partner of New York's Einbinder & Dunn, LLP. A business that is very complex, detailed and unique often doesn't find

great success in franchising. "The look and the trademark, the décor, the way the restaurant looks — those things are critical because people need to see the franchise units as being the same as the existing units," he says.

Another caution: Don't take on franchising if you aren't ready for some hard work, says Elizabeth D. Sigety, partner at Fox Rothschild LLP. "People think you just have to put together a few contracts and then people are going to run your business and pay you royalties, and it's going to be simple. But franchising really is complex. It's something that has to be thought about." Sigety adds, "To really expand into a system takes a lot of work and planning."

Another major element of bringing the franchise model to fruition is capital. Sigety calls money one of the "basics" when it comes to franchising, saying, "I've had situations where potential new clients come to me and, once I see the finances of their company and locations, they're not doing that well. So, how are they going to spread the wealth? They need capital. The franchisors need capital because they are going to grow."

A plan for growth is another important duck that new franchisors must keep in mind if they want to find success. "You have someone that comes in with a fairly established brand, but their marketing plan leads to, 'Man, I want to roll out a hundred stores in the next 18 to 24 months.' I'm usually running in the other direction," says Dr. K. Jameson Lawrence, Esq., founder and CEO of Baltimore's BVFR & Associates, LLC.

FACING YOUR FEARS

The Federal Trade Commission regulates the sale of franchises, and each franchisor must prepare a franchise disclosure document for potential franchisees. What's more, many states have various additional hoops through which franchisors must jump, and in a political landscape focused on the Affordable Care Act and raising the minimum wage, experts like Goniea have taken note of a looming feeling that the franchise model is under attack.

On top of all this, not every franchisee is going to be a stellar addition to the brand. "There's always going to be a couple of bad eggs out there. If you have hundreds or thousands of franchisees, somebody is not going to be good at running a business," Sigety says.

In the face of all of these well-founded reasons for trepidation, why is franchising still such a successful model for growth?

There is a reason companies are willing to wade through state-by-state regulations and paperwork, and place their brand in the hands of franchisees. Goniea sums it up: "Franchising is one of the most successful business models that has ever been developed."

Einbinder agrees: "I think it's a great way of extending a brand and growing. That's why people choose it. You can open a lot more pizza places around the world if you're doing it as a franchise than if you're doing it on your own."

Franchising, when done right, can open doors to growth that some companies just can't access on their own.