

Can business concept be franchised?

One of the first questions that clients ask about franchising is whether their product or service can be franchised, and if so, how.

The plethora of successful franchises makes generalizations about what may or may not be successful difficult. However, the most successful franchises appear to have been built around a few simple concepts. If the client's proposal for franchising does not meet these benchmarks, it is probably not suitable for franchising, or should be reworked so that it can be franchised.

Single Product or Service

Most successful franchises are built upon, or began as, franchises offering a single product or a number of related products that can be sold as a single one, such as Mexican food. The single product concept embodies a number of related principles of successful franchising—simplicity, ability to duplicate the product easily, highly targeted consumer appeal, and a sharp focus for marketing efforts. Especially in the beginning stages of a franchise, the concept of a single product is important for developing a successful franchise.

Cookie Cutter Concept

Not only the product, but the entire franchised business must be developed to a stage that it can be duplicated with "cookie cutter" simplicity—that is, that franchisees can be taught the business methods and ways of carrying out the duties of the franchise easily and quickly. The cookie cutter concept is essentially aimed at achieving simplicity and uniformity in all aspects of the franchised business's operation. It requires that the franchisor address every aspect of the business and develop a plan for how that aspect will be duplicated in each franchised location; additionally, it requires that the franchisor think through and develop the details of operation to an extent that they can be duplicated with maximum ease.

Uniformity of Product or Service

One of the essential concepts of a franchise is that it delivers a product or service that is uniform. This means that the product itself must be uniform in terms of quantity and quality, and that it must be delivered in uniform surroundings or circumstances, by uniformly trained personnel. Obviously, the degree of uniformity may vary depending upon the nature of the business, but it must be sufficiently uniform that consumers will identify it as the franchised product or service. Moreover, the franchisor must maintain uniformity in the product or service for the purpose of protecting its trademarks.

Uniformity of Operation

A franchised business must achieve uniformity of operation in all of its aspects. The business must lend itself to being operated in the same manner in a variety of locations with a minimum of variation. Thus, equipment must be of dimensions and specifications that will meet a number of different operating environments; hours of operation, employee requirements, and inventory requirements must be such that franchisees in different locations may use them, and the entire system must be capable of being described in an operations manual for use throughout the system.

Profitability

Unlike other types of businesses, a franchise must be sufficiently profitable to generate profits for the franchisee and to permit it to pay royalties and other fees to the franchisor. Whether a franchised business will be this profitable cannot be easily assessed except by actual observation; profitability will depend on many different factors, including the nature of the industry in which the franchisee does business. The client contemplating franchising should ascertain, from its prototype, the level of profitability that it or its franchisees may expect.

A Defined Market Segment

In order to be successful, a franchise must fit into a defined market segment. Franchises tend to be successful in industries where there is established consumer demand but little uniformity, such as the restaurant industry 30 years ago or the home-cleaning services industry today. Franchising in these industries demonstrated that existing consumer demand could be harnessed by providing a reliable and uniform service or product where there was no uniformity. Establishing that a franchised business has an appropriate market definition also requires taking account of regional preferences and differences, and considering whether the franchise represents a fad that is likely to lose appeal shortly or whether it appears to have long term prospects.

Protection of Franchised Concept

Another key aspect of a franchised business is that its concept, or the execution of the concept, must be capable of being legally protected. This means that the product or service must be subject to control by the franchisor such that it will not easily be stolen by others or by franchisees. Usually, in the first instance, the franchisor must establish and develop a trademark, protect trade secrets, and make sure that franchisees bind themselves to agreements which will protect the franchisor from theft of trade secrets or interference with the franchisor's rights. In the longer term, this means that the franchisor must continue to develop products and marketing concepts once the business is initially established.

Affordability

The franchise and the franchised business must be affordable to the target market of franchisees. The initial franchise fees, all of the expenses of starting the business, plus initial working capital and other expenses must be at a level that prospective franchisees can afford.

Reasonable Payoff

The franchise must generate sufficient cash flow to maintain the business and produce profits within a fairly short period of time. If, for example, the franchisee must operate in the red for a year or two before showing a profit, the franchisee may be reluctant to purchase the franchise.

Training

The franchise must be developed in such a way that the franchisor can train the franchisee in the operation of the business in a fairly short period of time. Moreover, the training program must be such that it will be accessible to any number of franchisees.

Although these benchmarks tend to be common to most of the industries involved in franchising, there are significant variations from industry to industry. What may be effective in one business may not be effective in another. Consequently, it will be necessary to tailor any given advice to the particular needs and circumstances of a client and his business.