



NO-FAIL FRANCHISING

WHAT YOU SHOULD KNOW BEFORE CLOSING THE DEAL



Chadi Chidiac, managing partner of PROTOCOL hospitality management consultancy, provides the five pillars of a balanced franchisor/franchisee relationship

We have all heard stories about unhappy franchisees who are dissatisfied with operating their restaurant in a franchisor's system. Many people are reluctant to even consider the possibility of franchising their restaurant concept, for fear of getting sued by disgruntled franchisees. Certainly a strong relationship between a franchisor and franchisee is something all parties would prefer; however, in many cases, this relationship gets derailed along the way, causing angst and lost opportunities for both parties.

It would seem, at first glance, that both parties have similar goals. The franchisee generates more revenue (and potentially more profit) and the franchisor receives increased royalties. Yet, when you drill down a bit further, it becomes clear that both parties' interests are not completely aligned; the franchisor is focused on the entire system of restaurants and therefore making decisions based upon what is best for the majority of units. The franchisee is strictly focused on the single unit or units he or she is operating. What is good for the many is not always good for the few. So, how can a franchisor maintain a positive working relationship with franchisees and how can a franchisee be better prepared to thrive in a franchise system?

1. PROPER SCREENING

The first step to creating a smoother relationship simply starts at the beginning. Franchisors have a responsibility to screen and qualify franchisee candidates so that those who are invited to join the franchised system are a compatible fit with the operational culture of the franchise. When the opposite occurs, and the franchisee is not suitable, the relationship will inevitably become 'off track'. Despite several screening methods, it is still necessary for the franchisor to stay disciplined, so that idea of earning a promised franchise fee, does not result in the lowering of qualifying standards. When a franchisor uses good screening and qualifying tools, and stays disciplined

to those tools, the chances of having a long-term positive relationship increases dramatically.

2. EDUCATION

Good franchisors do an exceptional job of educating franchise candidates about a franchise arrangement. There is a huge misconception that franchisees "buy" a franchise, and franchisors "sell" franchises. As a result, in the eyes of an uneducated franchisee, once a franchised deal has been closed, the franchisee considers that it now "owns" the franchise and problems with the franchisor's need to guide and protect the restaurant brand can arise.

For instance, when a franchisor tells the franchisee what he/she can or cannot do in operating the restaurant, rolling out a menu, using certain marketing materials or buying certain products from certain vendors, the franchisee may object, as it is "his" or "her" restaurant. How dare the franchisor dictate how he or she should run it.

When a franchisor makes it very clear that the franchisee is not buying the franchise, but instead is being "granted" the franchise, things can go more smoothly. Under this more accurate explanation of a franchise arrangement, the franchisor helps the franchisee understand that he or she is receiving a temporary and conditional license to "use" the trademarks and operational systems that have been created and are owned by the franchisor. The franchisee comes to further

understand that the franchise fee paid is meant to help the franchisors recover their costs in putting the franchisee in business, and the royalty paid is a license fee received by the franchisor in return for granting the franchisee continued use of the franchisor's trademarks, operational systems and other intellectual property.

It must also be explained that it is the franchisor's job to protect the brand and, more importantly, to protect good franchisees from bad franchisees that may be harming the brand. This is the reason that the typical franchise contract is very one-sided in favor of the franchisor. Once this is clear to the franchisee, it becomes much easier for a franchisor to establish boundaries about how the restaurant must operate. It becomes easier to manage expectations, as well.

3. EFFECTIVE SUPPORT

Franchisors must accept and be cognizant of why franchisees buy franchises. Many franchisees cannot articulate the reasons, but all franchisees implicitly expect the following from their franchisor:

- Effective operational systems, which promote profitability.
- Distribution efficiencies, which lead to volume buying power, reduced costs and uniformity of menu items.
- Marketing efficiencies that lead to positive brand recognition and awareness.
- Operational support and guidance, which looks forward and is not a negative comment on past operational behavior.

Similarly, franchisees want proactive guidance and assistance. Good franchisors do this through productive site visits, which result in help with operational efficiencies and profitability, and are not simply quality assurance audits meant to grade franchisees. Franchisors also do this through dynamic research and development in areas such as a new menu item, new marketing campaigns and techniques, and better all over operation systems. In other words, franchisees want

to know that their franchisor is "earning" its royalty. If it is cheaper and/or more profitable to operate as a franchisee in the restaurant system as opposed to operating as an independent restaurateur, the relationship will progress immeasurably.

4. COMMUNICATION

This sounds too easy, but it cannot be overstated - effective, positive and frequent communication between franchisors and franchisees is imperative. And, it cannot just be email correspondence. We have all been made aware of, or have been the victims of, a misinterpreted email gone viral in an organization. The communication should come from multiple sources, such as newsletters, site visits by field representatives, phone calls, annual conventions and regional or cooperative meetings. A franchisor who effectively communicates to franchisees their general message of the restaurant brand in growth and development strategies, as well as its operational and marketing strategies, will be more respected. A franchisor who keeps this information to him/herself will have suspicious franchisees that fear the unknown. A policy of openness and trust goes a very long way. Franchisees are on the customer frontlines, and are therefore a great source of information and feedback to franchisors. Some of the best ideas in franchising have, in fact, come from franchisees. McDonald's Big Mac and Filet-O-Fish sandwich both were franchisee ideas.

Lastly, in communication there is no replacement for a face-to-face meeting. When the relationship has gotten derailed, for whatever reason, the franchisor should reach out to the franchisee and schedule a meeting that will get the parties talking in the same room. In most cases, there will be more common ground than not, and disputes can be resolved.

5. SELECTIVITY

In successful franchise companies, franchises are not sold, but awarded to

fully qualified franchisees. It is important that any successful franchisor remains disciplined in their approach to finding franchisees that are a good fit with the system. This means effectively qualifying franchisee candidates on the basics of experience, net worth and available capital, and business values and ethics consistent with the franchisor. An excellent franchisee will have the following characteristics: He or she (or it, in the case of a multi-owner limited liability company or corporation) will be willing to follow the franchisor's system and maintain the franchisor's operating standards at a high level, he or she will be ready, willing and able to build value in the brand, and he or she will be well-capitalized and able to carry out the franchisor's marketing and operational directives. A franchisor is defined by the quality of its franchisees. A franchisor cannot experience success without successful franchisees. To develop a system of excellent franchisees, successful franchisors work very hard to build solid relationships with their franchisees. Both franchisor and franchisee should see themselves as working toward the common goal of developing loyal customers, increasing market share, increasing profits, and increasing brand awareness. Successful franchise companies attract and keep quality franchisees by delivering the core advantages of any franchise system, operational efficiencies and brand awareness.

PULLING IN THE SAME DIRECTION

Using these general ideas to improve the franchisee/franchisor relationship requires attention and diligence on the part of both parties. And, the stakes are high. When goals are aligned and both franchisor and franchisee are pulling in the same direction, the chances for success and bigger profits increase.

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