



How to build the best franchise possible

BY ALEXANDRA CAIN

Franchising is an increasingly important business model, and one of the growth sectors in the Australian economy. According to research house IBISWorld's figures, the franchising market is expected to grow by 2.8 per cent in 2016 – a figure that is in line with overall economic growth.

Not all franchises are created equal, which means it's essential for anyone considering franchising their business to contemplate whether it is really able to be completely systematised; the potential demand for franchises; and whether the return is worth the effort.

Indeed, Ian Salter from Benchmark Business, a business brokerage, says one of the first things a business should think about before turning itself into a franchise system is the potential returns.

'Franchisees must have the potential to make strong returns; everyone involved in the business model must understand it from top to bottom. The model should be measured, tested and adjusted, and put down in manuals,' he explains.

When it comes to the businesses that make the best franchise systems, Salter says that a franchise in the service industry is generally better than a franchise selling products. 'Products can be easily copied, but businesses in the service industry, such as cleaning or optical enterprises, really do have a point of difference.'

Salter says access to good advice and doing proper due diligence is crucial. 'Every business owner thinking of franchising their business should really do their homework first, research the marketplace, know their unique selling proposition, and understand their rights as a franchisor.'

He says it's paramount to put together proper paperwork like disclosure documents and franchise agreements, and that appropriately branding the business is also essential for every franchise.

Other considerations include investing in business operating and point-of-sale systems, which should include functionality so that the franchisee can report business activity back to the franchisor. 'Look at the franchise model through the eyes of a franchisee to understand their side of the fence.'

Marianne Marchesi, a senior associate with law firm Marsh & Maher, which has a specialisation in the franchise sector, says any business that has had success as a company-run operation might consider expanding its success by franchising.

But, like Salter, she says it's essential for the business model to be proven before the owners can even consider franchising.

'There must be an appropriate organisational structure in place, including franchisee recruitment staff, field support staff, training staff and franchisee support staff. The business must also have clearly articulated plans for growth, either to rapidly expand the franchise system, or to start off slowly,' says Marchesi.

She says businesses should also be aware of the risks of franchising. 'In addition to the usual risks applying to all businesses – such as economic downturn or the cost of goods and rent – franchisors face additional risks that are specific to franchising. Franchising is centred on the brand, the franchisor's reputation and intellectual property. Any damage to these assets can have ripple effects across the whole system.'

Further, Marchesi says any disputes with franchisees and investigations by the Australian Competition and Consumer Commission can deplete the

franchisor's time and resources, especially with the introduction of penalties under the Franchising Code of Conduct, which took effect from 1 January 2015.

She says the starting point for franchising your business, in terms of obtaining advice, is to undertake financial modelling. 'The franchise model will need to ensure both a return on investment for franchisees, and a profit to you, the franchisor. A financial or business consultant can advise you on your franchise fee, royalties and other ongoing fees.'

According to Marchesi, when developing the systems it's a good idea to engage an expert to determine the network and territory planning strategies. It's also worth having an expert prepare the operations manual for the system, and establish a training program.

'Engage a lawyer to protect your intellectual property if you haven't already, and prepare your franchise documents, including a franchise agreement and a disclosure document, so that you can start rolling out franchises.'

She reminds potential franchisees that franchising is governed by the Franchising Code of Conduct in Australia. This imposes a number of requirements on franchisors. 'A lawyer with specific expertise in franchising can assist you in making sure you are complying with the law and meeting your disclosure obligations under the code of conduct.'

Marchesi says that amid all the excitement of franchising your business, it can be easy to become complacent. 'Remember that franchising is always a work in progress. Laws change,

customers' and franchisees' expectations change, and so must the franchise system. Franchisors should continuously work on improving and reinventing themselves when necessary.'

Marchesi advises potential franchisees to become involved in the industry. 'The Franchise Council of Australia exists to provide member support and networking opportunities for franchisors and other industry

participants, as well as to lobby the government on relevant issues.'

Above all, says Marchesi, it's critical to develop good relationships with your franchisees. 'Aside from the fact that this will contribute to the success and growth of your business, franchisees are your brand; without them, there is no franchise system. Franchisees can also be a great source of innovation for your business. For instance, the idea for

the Big Mac was created by a franchisee.'

Franchising can be a great way to scale up a business and provide income to the franchisees in the network, as well as to the franchisor. But it's essential to be methodical when developing a business into a franchise; take the appropriate time and invest in advice from people who really know what they are doing, to give the system the best chance of future success. Forge.

Case Studies

Chic Shed is fit for purpose

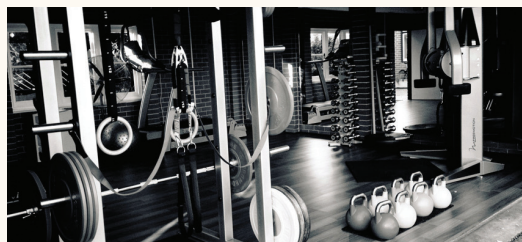
Robyn Vincent calls herself the 'top chic' of the Chic Shed personal training franchise she runs. The very first Chic Shed was founded in Vincent's two-car garage.

'Chic Shed is a personal training environment designed for "chics", but fit for all. We soon discovered that the business model has a great work-life balance that is very attractive to a potential franchisee,' explains Vincent.

'Franchising is not so much a type of business, but a way of doing business. We provide the fit-out and a turnkey solution that means the franchisee can confidently roll up the garage door and begin operating as a high-quality personal trainer from day one,' she adds.

Vincent says that the Chic Shed head office – the 'Head Shed' – provides comprehensive support based on decades of experience in the personal training industry, including marketing, finance and systems. 'As a low-cost, low-risk business with strong marketplace growth, Chic Shed's unique business model is why we were able to be franchised.'

She acknowledges that systematising the business was challenging – but also rewarding. 'It really made me consider how we were operating, and how the franchisees and their clients would benefit best from Chic Shed systems.'



Vincent relied on advice provided by professional services business Pitcher Partners' franchising division. The consultancy was able to assist Vincent to develop systems, occupational health and safety structures, a code of conduct and performance standards.

'There were no short cuts. We systematised everything, from fabric softener for workout gear, all the way through to steps to ensure you have a happy client.'

Vincent says the advice that Pitcher Partners provided wasn't just about doing the numbers and developing the documentation; it was also instrumental in helping her understand the process of franchising a company.

Additionally, law firm Marsh & Maher provided Chic Shed with legal advice and documentation. Vincent says The Franchise Council of Australia was also supportive and proactive in giving guidance on current franchise requirements.

'Every process, every mistake, every success has benefited us in defining our model. My advice is to do your homework and seek advice – not only from professionals who specialise in franchising, but also from the client. Your potential franchisee is a direct reflection of your business. Their outcome and desire must align with yours.'

On the road with Blue Toro

Janelle Gonzales is the founder of Blue Toro, a national franchise of mobile mechanics. She explains that the ability to systematise the business is the reason it could be franchised.

'We were able to build a series of processes to operate the business. For any franchise, it's crucial that you can document every part of your business in a step-by-step process, and then be able to document that in an operations manual and put effective training and measurement in place. Franchisees are buying into a ready-made business, and customers are buying into a consistent experience,' says Gonzales.

'The other crucial element was building systems that allowed us to systematise our workflows. What works for a single independent operator does not work for a national franchise,' she warns.

Gonzales says that one reason that the franchise is a success is because there is sufficient market demand in enough geographic regions to allow it to scale across multiple markets.

'We believe we're in a growing, recession-proof business, applicable anywhere that there is a sufficient number of cars. Australians are becoming more time-poor and service-savvy, and the number of cars is increasing year-on-year. Most people rely on a car, and all cars need to be serviced and repaired on a regular basis. We also took into account the relatively low competitor base currently servicing the mobile market, as well as the increasing market shift away from dealership servicing.'

Gonzales says it's important that the business model is sustainable. 'We had to develop a model that ensured that our franchisees were making a strong income, that their expenses were minimised, and that we could financially support the business and



ensure that we were also able to make a reasonable profit.'

The other consideration, says Gonzales, is how the business model stacks up against an individual who wants to start a business. 'Our franchisees want to know that they are more likely to be financially better off, and see a good return on their investment by joining our franchise.'

When it came to systematising the business, Gonzales says the focus was on IT and processes. 'We had to look at the areas of capability in our business, scoping what systems were required, and then sourcing and building those systems.'

For example, Blue Toro could no longer rely on advertising a mobile number. It had to purchase a 1300 number, set up an interactive voice response (IVR) system, and be able to route those calls via postcodes to the appropriate franchisee. It then put in place an answering service as an overflow for when the mechanics could not take a call.

'The CRM and booking system were our biggest system builds. Every job had to be managed on a central system so that all franchisees could share and have visibility of customer records. We then wanted to be able to invoice, communicate to customers and run

marketing campaigns from that. This required a large up-front investment and sourcing the right people.'

Everything in the business had to be mapped out into a process that franchisees could follow. 'We wanted to make sure that our customers have a consistently good experience, and that our franchisees were able to use our systems and best represent our brand. Every part of our business was mapped out, documented and built into a secure website.'

Gonzales advises potential franchisees not to be too aggressive when recruiting potential franchisees. 'A typical sales funnel follows the 7/11 rule – that is, a prospect typically has seven touch points with your business and invests 11 hours researching prior to buying. Buying a franchise is not only a huge investment – it's a complete lifestyle change.'

She says the recruitment strategy needs to help prospects to slowly walk through a process and spend time getting to know the business before they invest.

But her top tip is to outsource as much as you can. 'I thought I could manage most of the business myself in the early days, and that I couldn't afford help. This has become a false economy and did stall my growth.' **Forge.**