



# The A.R.T. of Franchising

An Important Franchising Update from the firm of Jackson Walker L.L.P.

May 24, 2012

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## The A.R.T. of Franchising Advice - Reminders - Tips

Dear Franchisor,

I hope you enjoy this edition of Jackson Walker's *ART of Franchising* newsletter. As always, our intention is to provide you with timely and easy-to-read franchise *advice, reminders and tips*, so that, as industry leaders, your knowledge of franchising will be continually expanding.

### Creating Franchisee Satisfaction

#### *Why do Franchisors Care?*

While Franchisors are busy expanding their systems, focused on hitting growth targets and capturing market share, they are simultaneously leaving in the wake of this growth a swath of Franchisees which will become a Franchisor's most important referral source and the face of a Franchisor's brand for years to come. Clearly a satisfied Franchisee can be a great referral source for prospective franchisees, while a disgruntled Franchisee can be a deal killer. This is especially true in very early stage and emerging brands, where a few unhappy Franchisees can have a very loud voice. Moreover, as Franchisees are responsible for bringing a Franchisor's brand to the public, an unhappy Franchisee is unlikely to champion any brand successfully.

Many brands measure their Franchisee satisfaction for these two very important reasons. The link between satisfied franchisees and increased growth resulting from more closed franchise deals and better run units is undeniable.

#### *How is Franchisee Satisfaction Achieved?*

Notwithstanding Mick Jagger, Franchisors can get Franchisee satisfaction. Most Franchisors focused on this goal utilize a two step process: (1) bringing the right kind of Franchisees into the system, and (2) providing Franchisees with a value proposition.

#### *How Are the Right Kind of Franchisees Chosen?*

Most Franchisors create comprehensive, well developed systems for operations, but fail to put the same energy into developing a system or process for recruiting Franchisees. If Franchisors spent the same time and effort to build a comprehensive Franchisee recruitment system and then stayed disciplined to utilizing this system, the results would speak for themselves. A Franchisee recruitment system should include a structured approach to fully screening and qualifying each and every Franchisee candidate, and generally include the following:

1. Development of a comprehensive Franchisee profile to

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- measure candidates against.
2. Comprehensive franchise application, utilized in every case.
3. Net worth and capital liquidity verification.
4. Multiple candidate interviews.
5. Requirement that the candidate develop a business plan for the franchised business.
6. FDD review.

#### ***How is a Value Proposition Created for Franchisees?***

Meeting Franchisee expectations is essential. Franchisees want to know that they are getting value for the royalty paid to their Franchisor. To provide some perspective, if a franchised business achieves a net profit of 20% before paying the Franchisor its royalty of 5%, the Franchisor is taking  $\frac{1}{4}$  of the Franchisee's profit. This is a significant amount. Franchisors focused on creating this perception of value in their franchise systems focus on the following:

1. Comprehensive initial training programs.
2. Two-way communication which fosters collaboration.
3. On-going support that is focused on business consulting rather than brand policing.
4. Treatment of Franchisees as strategic partners rather than second class citizens.
5. Building brand recognition.
6. Achieving volume pricing, thereby lowering Franchisees' costs and increasing margins.
7. Creation of operational efficiencies which translate to lower costs and increased profitability.

To the extent that Franchisees view the payment of their royalty fee as a good investment, their level of satisfaction in a given franchise system will certainly increase.

In the post-recession economy, margins for error seem to have gotten smaller. To expand effectively Franchisors must operate smart and efficiently, or lose out to the competition. Franchisors focused on viewing Franchisees as strategic partners, rather than expendable operators, will have a certain advantage.

We welcome your comments and suggestions. Please send to [wbunch@jw.com](mailto:wbunch@jw.com) or [mmiller@jw.com](mailto:mmiller@jw.com).

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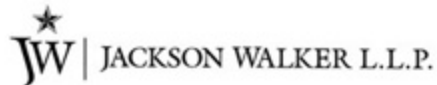
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