

5 Habits of the Highly Successful Franchisor

By Brian Schnell and Alison McElroy

Many franchisors are successful. Other franchisors are not. Only a small number, however, are highly successful. What separates the highly successful franchisors from the rest? This article identifies five habits that can make a significant impact on the overall success of a franchisor, its franchisees, and the franchise system.

Habit #1: Maintain an undying devotion to the brand.

The first habit of the highly successful franchisor is to maintain an undying devotion to the brand. The brand is the franchisor's most important tool for communicating to customers.

At its core a franchisor's brand is its promise. (We promise. We deliver.) Highly successful franchisors understand completely that brand focus is trust based. A franchisor's brand is less about what franchisor management wants its brand to be and much more about customers' answers to the question "Can I trust this organization?" Without branding and reliable delivery of promises, customer relationships are more likely to be short-term and to contribute little to brand-building.

For franchisors, customers' impressions of the brand are built through their interactions with the franchisees. Traditionally, brand development has been consumer oriented and focused on external advertising and promotion. Because of the interactions between franchisor, franchisee, and the customer, the concept of inside-out branding is particularly important to the franchisor.

Inside-out branding—associating brand development with the intellectual capital of the organization, rather than just the development of marketing—is central to the development of systemwide value of the brand. Nicholas Ind, a proponent of inside-out branding, explains:

Ultimately there is little value in a brand idea that is rooted in the boardroom

or a specific functional area. It needs to permeate and be understood by the whole organization. That necessitates the idea moving beyond communication into people's everyday activities. This is about stimulating self discovery and behavioural change. And it is the real test of living the brand.¹

Effective inside-out branding requires the wholehearted commitment of management to lead by example. In most franchise businesses, the brand, its images and relationships are formed by the interaction between franchisees, employees and customers. Branding should concentrate on connecting the franchisees and employees with the brand idea and instilling in them the same commitment to deliver on the brand promise with every customer touch. Successful execution of this brand approach differentiates highly successful franchisors from other franchisors.

Habit #2: Balance the interests of the franchisor, franchisee, and the system as a whole.

The highly successful franchisor is keenly aware of the competing interests of the franchisor, franchisee, and system as a

whole—and balances them appropriately. Successful franchise systems are built on a relationship of interdependence and trust.

The successful franchisor manages its system through its relationships with its franchisees, but the successful franchisor never loses sight of the differing and sometimes adverse roles of the franchisor and the franchisee.

The essence of the franchise relationship is governed by contract, but managed by relationships. The key for the successful franchisor is to establish a culture of voluntary compliance with system standards, but vigorously enforce compliance by errant franchisees.

The franchisor's tool to enforcing compliance with system standards is the franchise agreement—the document that ultimately governs the franchise relationship. The franchise agreement must: protect the right of the franchisor to set the direction of the system without interference from the courts, protect the right of the franchisor to evolve the system to respond to competition and changes in consumer demand, limit the ability of a few franchisees to place the

The franchisor's role:

- Develop a system.
- Support the franchisee.
- Evolve the system.
- Enforce the system.

The franchisee's role:

- Provide capital.
- Provide unit management.
- Follow the system (play by the rules).

In a Franchise Sales Process, the Franchisor:

- Sells to anyone willing to buy.
- Looks for buying signals and opportunities to close.
- Focuses on recruiting a quantity of candidates.
- Maximizes growth by accepting marginal candidates.

In a Franchise Recruiting Process, the Franchisor:

- Selects only those who both match the profile of a successful franchisee and whose objectives can be met with a high degree of probability.
- Focuses on whether or not the candidate is a good match.
- Seeks quality over quantity.
- Protects the brand by walking away from marginal candidates.

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entire system at risk through class actions, maximize the ability of the franchisor to keep successful franchisees within the fold by strong noncompete commitments. The franchise agreement is an instrument that manages and minimizes risk for the franchisor—not because the franchisor has a license to engage in misconduct, but because lawsuits and arbitration are simply not the way to manage a franchise system.

Although the highly successful franchisor strives for consensus and accord with its franchisees, compromises that risk the franchisor's control will not work in the end. In other words, at times, the best approach is no more "Mr. Nice Guy." Sometimes the solution is to remove the bad apples. But removing a franchisee does not have to be punitive. Often the most effective approach is to work out the terms of a franchisee's exit from the system through a mutual termination agreement that allows a franchisee to sell its franchise to a third party.

Habit #3: Stack the deck with "ace" franchisees.

The third habit of the highly successful franchisor is to stack the deck with "ace" franchisees. The key to implementing a sales process that focuses on identifying "ace" franchisees is to understand that focusing on the quality of the candidates in the short run creates both quality and quantity in the long run. Instead of focusing on franchisee sales, the highly successful franchisor recruits quality candidates.²

Remember that recruiting franchisees and selling franchises is a separate business from the operation business of the franchise. Recruiting franchisees entails lead generation, prospecting, presenting, and follow-up and closing.³ The profile of a successful franchisee recruiter includes great listening skills, masterful interview technique, and high integrity. The successful franchisee recruiter responds to requests within 24 hours, follows a process, builds solid business and personal relationships quickly, and tells it like it is. The franchisee recruiter should be paid a salary plus commission—paying them to say no to the marginal candidates.

Implementing a strong and focused franchise recruiting process, and saying no to the marginal candidates, will help identify those franchisees who can make the franchise a success in the long term and help to build the brand along the way.

Habit #4: Obsess over the franchisee's bottom line.

The fourth habit of the highly successful franchisor is obsession with the franchisee's bottom line. The highly successful franchisor fully understands that its success is largely dependent on the success of its franchisees. The key here is after identifying the "ace" franchisees in Habit #3, the franchisor should provide field support to help the franchisee develop its business. Providing regular, ongoing support to franchised and owned locations ensures system compliance, assists locations to improve performance, maintains a sense of unity and belonging among franchisees, and physically demonstrates concern regarding franchisee operations. Profitable franchisees are happy franchisees. Too many franchisors spend too much time dealing with problems rather than proactively looking for ways to increase franchisee profitability.

Onsite visits from field consultants provide opportunities for business consultation, profit and loss analysis, compliance audits, marketing and advertising, local vendor relations, franchisee training, management training, staff training, communications link, and market coordination. Field consultants add value in providing proactive feedback, providing input into the franchisee's right to expand, assisting with certification of store personnel or trainers, approving localized advertising, and being responsible for communications and coordination.

Habit # 5: Empower the franchisees.

In Habit #5, the highly successful franchisor empowers its franchisees. At first glance, this habit might seem frightening to the franchisor, but don't confuse power with control. Empowering franchisees does not mean a franchisor has to give up its decision-making authority. The highly successful franchisor makes critical decisions for the system and should make those decisions.

Empowering franchisees means giving them the power to get something done and the tools to be effective. This means giving franchisees resources to find new ways to grow their own businesses and creating a culture of working hand-in-hand with the franchisor and other franchisees. The highly successful franchisor has a plethora of traditional ways of empowering franchisees—franchise advisory councils, regional advertising corporations, franchisee representation on product development and

other committees, and franchisee buy-in to significant system change.

Most franchisors look at franchisees who are not successful and say they are not implementing the system, but they fail to ask the "why not" questions. Franchisees do not just wake up one morning saying "I'm not going to follow the system today." Too many franchisors wait for too long to act on problems or challenges. On the other hand, highly successful franchisors create a trust-based franchise system with frank and open communication where franchisees feel they are empowered to participate actively in the present and future direction of the franchise system.

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