THE GLOBE AND MAIL

Report on Business

Best Practices in Franchising

Aspiring entrepreneurs hear the same grim stats over and over again. The vast majority of new companies fail in the first year. In fact, the odds are so long, it's said, that the best scenario new businesses can hope for is to break even in Year 3. There is, however, one significant exception: franchises. Ninety-three percent of franchisees not only survive the first year, they're still in business 10 years later, according to the Canadian Franchise Association.

Franchising's ace in the hole is that the business models are always based on best practices, accumulated over the years and from each of the franchisees. As such, there is no newby fumbling over the business plan, no wild gambling over new products, or inexperienced adventures in marketing. By definition, the cornerstones of the business are supposed to be a sure thing. The instructions are clear: read the manual and apply information, chapter and verse. Don't deviate and you won't go wrong.

Of course, people still go wrong. There are no sure things in business, and franchising is no exception, despite the rosy stats. Franchises can and do go bankrupt and franchisees can lose hundreds of thousand dollars in the process.

Mark Wardell was here to provide advice on franchising issues, and steps to take before you invest.

Mr. Wardell is the president of Wardell Professional Development Inc., a Vancouver-based consulting firm that helps small businesses develop growth-management strategies. He frequently works on behalf of franchises and clients seeking to pursue that route. In his online column this week, he outlines the example of Kin's Farms Markets, a Vancouver-based retailer interesting in developing a franchise. To read the Kin's case study, please **click here**

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Noel Hulsman, editor, Report on Small Business writes: Mark, thank you so much for your time today. We've got a number of questions waiting, so without further adieu ...

Carol Spruce from Vernon writes: I am interested in exploring a brand new franchise idea that I have. Specifically, what are the criteria you look for in a business idea that would be considered 'franchise friendly'? Secondly, what is the sequence of events to set up a new franchise? Any information would be appreciated. Thanks in advance for your input.

Mark Wardell writes: This is a big question, but to put it simply, a franchise is more likely to be successful when it duplicates a successful business model. By this I mean, a profitable business that can operate independently from the ownership. You're looking to duplicate yourself, so the easier and more profitable you can make this for a prospective franchisee, the better.

1. Step one is to write your business plan. You're building the foundation for something you hope to grow exponentially, so a little time here will pay off down the road.

2. Next, fully develop your brand. This goes much further than just a corporate logo. It's about developing a consistent customer experience. For example, no matter what McDonalds you go into, your experience is predictable.

3. Open your first franchise yourself. You need a real life, successful example that prospective franchisees can identify with and gain confidence from.

4. Write everything down. This next step is critical, as it will form the core of your franchise manual. This is the operating manual for your business, and the more specific it is the better.

5.When you are ready to move forward, you'll need a franchise agreement and a disclosure document. You can get away without the latter if you plan to stay in B.C., but it's a requirement in Alberta and Ontario, and besides, the more transparent you appear to a prospective franchisee the more confidence they are going to have in joining you. So my advice is to have both prepared by a competent lawyer with franchise experience.

6. And finally, take your time finding your first franchisee. Don't just go into business with the first person who comes along with your franchise fee. Your first step into franchising is your most important one, so make sure you go there with someone you trust will do a great job.

David Guy from Toronto writes: Mark, I read with great interest your case study on Kin Farms. I currently own a small business and am considering setting it up for franchising over the next few years. Where can I go for further advice (other than your firm), and what resources should I be looking at?

Mark Wardell writes:

1.The Canadian Franchise Association (www.cfa.ca) is a great place to start. Their next franchise trade show is October 20 — 21 in Toronto. Go and get a sense of who's out there and what they are doing.

2. Get a lawyer with franchise experience (I used Joe Adler from Toronto). Franchising isn't the "one size fits all" approach it appears to be. So a good lawyer will be able to show you the variables you need to consider when forming your own model. For example, territories, franchise royalties, and marketing fees, just to name a few.

3. Get an accountant with franchise experience (and introduce him/her to your lawyer). You may be setting up a new corporate structure and you'll want to do this right the first time.

4. Introduce yourself to some existing franchisees and get their perspectives. Why did they buy their franchise? What do they think of their franchisor? And so forth. After all, these are exactly the types of people you'll be pitching your idea to in the near future.

5. And most importantly, get to know other franchisors. Take them to lunch and ask them to tell you their stories. What were their challenges? What have they learned? You'll find their experiences to be invaluable.

David Guy from Toronto writes: Hi Mark, Granted, a franchise gives you the template for a proven business model. One of the most common franchise examples held up here in Ontario has been Tim Hortons . They have grown slower than expected in the United States, however, and reportedly struggled. How can you tell if a franchise that works well in one community can do the same in yours?

Mark Wardell writes: To determine if a business is going to work well when it moves from one region to another, you need to clearly understand your market niche and ensure your target demographics match the demographics of your intended location. At the same time, execute a strategic plan to build up your brand in your new community. This last point is key. A common mistake we've all seen is brand overconfidence - just because a brand is popular in one region doesn't mean it will be popular in another. As you've said, Tim Hortons is a classic example indicating lack of brand awareness (overconfidence). It makes sense that America's "nationalistic" buyers wouldn't gravitate toward a brand like Tim Hortons, which is built upon feelings of Canadiana.

The same mistake was made by American donut giant, Krispy Kreme when they expanded up to Canada. Brand overconfidence has also been the peril of businesses within Canada heading East or West. Witness Purdies vs Laura Secord. These examples highlight the absolute necessity of doing the market and demographic research and building brand awareness instead of relying upon success in other regions. Obviously, there are also many successful examples I could discuss here, but to leave you with some advice, I emphasize that you carefully study your new market place. Look at competitors and other businesses who have successfully gone there and thrived. Then, grow into your new, carefully chosen, market place from a place of strength, by developing a brand awareness strategy.

Noel Hulsman writes: Mark, we really appreciate your perspectives. Thanks again for your time. Best.