TO FRANCHISE OR NOT TO FRANCHISE?

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Having been an independent business owner, worked as an executive for a Fortune 500 franchising company, and now as CEO of the largest ownership and management group in the ServiceMaster franchise network, my partners and I are often asked by aspiring entrepreneurs and investors about the value of franchising. Whether you are looking to get out of the corporate world and become your “own boss” or are an existing business owner weighing the benefits of converting your operation into a larger franchise network, this article is for you.

Beyond that of the standard business case questions that need to be vetted out i.e. – industry trends, market conditions, franchisor’s history and future plans, cost of sales, margins, disruptors, etc…and the pro-forma you will need to build around these considerations, there are some basic factors to consider when evaluating whether or not to invest in a franchise system.

CONDUCT A COST/BENEFIT ANALYSIS

For all of the benefit that comes with being part of a franchise network, brand awareness, advertising, training, support, etc…there are also significant costs that one has to consider. Royalties and a litany of other fees add up quickly and can have a significant impact on your business, negatively impacting profitability and limiting your potential to grow. Having a clear understanding of what those costs are and what specifically you will be receiving in return is essential. Look for franchisors that understand these challenges and have incentives for franchisees to grow and invest back into the business. Long term franchisors understand this concept in that a rising tide lifts all ships. Is the franchisor more focused on adding new locations or helping existing businesses grow? Those that are continually looking to cut costs, reduce support to their franchisees and squeeze as much blood out of the proverbial stone as they can are focused only on short term gains and will not share your long-term investment goals.

Similarly, striking out on your own has its own challenges. There are costs to consider around building brand equity, your own business model (vs a ready-made plan off the shelf) and making mistakes you may otherwise have avoided by learning from an established franchise network. Ask yourself not only where you want to be in one year, but three years, ten years out. And what model will better help facilitate those outcomes?

INTERVIEW THE FRANCHISOR

Often times, when people are looking to branch out on their own or buy into a franchise system, they are putting a significant amount of their net worth at stake. Franchisor’s will typically require a personal guarantee to back up the business investment. This is not something to take lightly. Beyond that of being confident about the business model itself, you need to feel really good about the people you are going into business with. And make no doubt about it, your franchisor is a business partner and you need to vet them thoroughly.

Future franchisees need to look outside of their own world and understand the bigger picture of industry trends, the actions their franchisor is or is not taking and how all of these decisions could potentially impact their business investment. Always remember, past behavior is the best indicator of future actions. Make sure the franchisor has historically stayed ahead of trends and industry developments in order to help their franchisees avoid downturns or take advantage of new opportunities. If your franchisor is not innovative, this will require you to invest more to keep up. However, if they are innovative and future-focused this helps eliminate expense for you as a business owner. This innovation can include nearly any aspect of your business from products and training to business leadership and recruiting, technology and more.

INTERVIEW THE FRANCHISOR

Buying a franchise or multiple franchises is a long-term play. As such, you want to make sure that the goals of the franchisor align with your own. The strategies you develop for an investment of your life savings and future retirement may not line up with corporate executives who are only interested in short term gains.

Here are some questions to consider asking:

- How would the franchisor define their culture? Does this align with your values?
- Would franchisees define the culture the same way as the franchisor?
- Is the franchisor publicly traded or privately held? What are their short, medium and long-term goals?
- How long have they been franchising?
- Were they franchise owners themselves at one point? If so, what kind of franchise location did they operate? Did it show profitable growth?
- How long has the current leadership team been in place and what have the turnover trends been for these key leaders?
- If leadership has been in place for an extended period of time, how have things changed, what are the biggest disruptors to the industry and how are they positioning the business to maximize on these opportunities?
- How would the franchisor describe their relationship with the franchisees? Employer to employee (red flag)? Do they view their franchisees as internal customers (good answer, ask how)? Or other?
- Does the franchisor enable you to purchase multiple locations? Are there limits on this? What incentives are in place for franchises to expand and how does the franchisor support this growth?

TALK TO FELLOW FRANCHISEES

In addition to interviewing the franchisor, it is equally important to meet with your future franchise partners. Speak with several business owners of varying sizes, those that would be close to your location(s) and those that share your same goals. And do not rely solely upon the franchisor to make these introductions. Often times, the franchisor will introduce you to those franchisees that are “corporate friendly”. These businesses may sit on franchisor appointed committees and are at a stage of their business life that they are politicking for a salaried job working for the franchisor. Yes, this does happen. You want as much open and honest feedback as possible. And be warned, you will always hear from franchises that will complain about what the franchisor does not do for them. Complaining about the franchisor is a rite of passage in some systems. That said, take all information with a grain of salt, but take it all in to make the most educated decision possible.

Franchising can provide entrepreneurs with a great advantage versus starting out on your own with an independent business. Having the support and a built-in peer group that come with a franchise system can be extremely helpful in getting a business off of the ground. In today’s environment, there are many opportunities and financing options available to get started. But as in all business decisions, choose wisely. Information is power. Get to know the people you are going into business with by asking the right questions and as always, take a long-term approach.

CONTACT INFORMATION

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ABOUT SMDSI

ServiceMaster DSI (SMDSI) is a residential and commercial disaster restoration company that provides services through the ServiceMaster Restore® and ServiceMaster Recovery Management (SRM) brands.

Starting with its first ServiceMaster license in 1981, ServiceMaster DSI has grown to be the premier ownership group within the ServiceMaster network, amassing 85 licenses within the United States and serving as the flagship SRM operator. ServiceMaster DSI has 16 regional offices within the U.S. with its primary hubs located in the Chicago, Denver, Indianapolis, Kansas City, Miami, and Minneapolis markets.

Through these brands, SMDSI services clients in all 50 states and its large loss team has provided commercial disaster restoration services in more than 20 countries around the world.