FRANCHISING: DO. YOUR. HOMEWORK

With the new year come new resolutions, such as: why don't we finally buy into the franchise dream we've had for a while? For some, that wish has become a reality, producing many success stories in and out of the Middle East. **Nagi Morkos**, managing partner at Hodema consulting services, talks us through the dos and don'ts to consider before expanding

Franchising has been at the top of the region's savvy investors' list for some time, bringing with it the promise of a relatively safe route to expansion and success. But the path is not always a smooth one. Three words to keep in mind, whether you own a brand or want to become a franchisee: Do. Your. Homework. And proceed with caution, otherwise you risk falling into fatal traps.

Franchisors, bespoke your brand

So you own a food and beverage (F&B) brand which is quite successful locally and you'd like to replicate it elsewhere. Remember that being a business owner doesn't mean you know how to franchise it, and making that shift can be critical for ensuring its success. The franchising set-up stages are crucial. Your concept needs to be tailored to fit franchising requirements and there are many. The key three are: finance and control; human resources and product consistency. These all need to be standardized as efficiently as possible. Finance and control means that all procedures must be detailed, from purchases to cost calculations and menu modifications. Human resources is also pivotal; recruitment and management need to meet the company's standards. Product consistency, meanwhile, covers everything from purchasing ingredients and cooking specifications to corporate identity and interior design. If you're new in the business and already considering franchising your concept as you're developing it, seize the opportunity to build a brand already 'franchise-ready'. This will save you money when the time comes to expand your business. On the other side of the spectrum, franchising can be seen as a survival solution in the event of a market slowdown.

The Holy Grail, aka the operations manual

Once you've met the criteria required just to consider franchising your brand, keep in mind that what makes your business successful will not suffice elsewhere. Why? Because if you rely on the presence of your chef in the kitchen, they won't be able to work in both venues simultaneously. The only way to bypass this dilemma is to provide detailed guidelines, instructions and procedures to your franchisee in the operations manual. So sit down and identify your concept's key assets, which could be the F&B offering or the signature elements in the design. Then find a way to reproduce it without losing quality or consistency. The weaker sides of the brand need to be addressed as well, since nothing should be left to chance. The operations manual establishes the rules, standards and specifications that the franchisee will need to adhere to if they are to operate the business according to your wishes. It is basically the backbone of the brand that can be read and implemented anywhere in the world.

Finding the right match

Once the business is ready to go out to the world, all you need is to find the right person to purchase your franchise. The successful candidate will need a strong understanding of what a franchise entitles them to and its requirements, as well as enough money to develop it. But it takes two to tango; the aspiring franchisee also needs to watch his/her step before committing. Franchising is almost like entering a marriage: read the contract carefully because the honeymoon won't last. And that's when long-term commitment needs to kick in. The ideal scenario is a deal that benefits both parties. However, sometimes franchisors are simply looking for a quick sale, over-promising and under-delivering.

Franchisees, make due diligence a must

Many see franchising as a turnkey business, when in truth, it's anything but a walk in the park. There is an emotional feel to it that comes with the excitement of starting a business 'for yourself, not by yourself', as they say. The franchisor provides the stabilizer wheels until you know how to cycle on your own. This translates into lower failure rates, although there are still many deadfalls. First, if you think you'll be your own boss, you'll be disillusioned, so have the right expectations. Second, don't underestimate the funds needed; undercapitalization can nip your business in the bud. And third, trusting the brand owner blindly can lead to disappointment, so due diligence is essential. This pre-acquisition investigation is key to calculating your risks and knowing where you're going when investing in a business. On top of analyzing the facts and figures provided by the franchisor, contact former or current franchisees to gauge their experiences. Don't rely on average revenue figures from other outlets, since they will be driven, in part, by their location and customer base, each of which is different. And look out for hidden fees and additional costs in the contract.

The limits of standardization

To reiterate, consistency in both product and image is essential for success. But as locations differ, the customer base, its culture and habits vary as well, which will affect the menu, ambiance and even marketing strategies. The franchisor thus needs to identify the right level of freedom to give the franchisee in order to adapt the concept according to local specifications, while protecting the integrity of the brand.

A failure-proof operations manual can almost always guide you through a franchising decision. However, franchisors and franchisees should also find out exactly what they're getting into before taking the plunge, by dipping their toe in the water.

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