

## RETAILING: WHO SHOULD FRANCHISE?

SYNOPSIS — Business owners interested in franchising their successful business concept must understand whether or not their concept is franchisable from a practical perspective before making the leap into franchising. This article lays out our approach to assessing franchisability; another “must read” for prospective franchisors. From *Issues in Franchising*, No. 22. By *E. Todd Ellison & Jean-Louis Janssen*.



# RETAILING: WHO SHOULD FRANCHISE?

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by E.Todd Ellison and Jean-Louis Janssen



Understandably, “can my business be franchised?” is a nearly universal question among entrepreneurs who would like to grow their retail businesses. A better question is: “can my retail business become a successful franchise company?”

## **EXPLORING FRANCHISABILITY**

There are a variety of approaches to exploring this issue, but this is the Janssen Ellison Company method.

First, a caveat: there are no hard and fast rules as to what types of retail business concepts are amenable to franchising. Answering this question always comes down to judgment. And in the real world of business, of course, to strategy and execution. As you’ll see, the factors we look at deal with two very different marketing issues, both of which must work in order for the franchise business to work:

1. Is the business a potentially viable franchise retail business?
2. Is the business a potentially viable franchise offering?

Another issue to keep in mind

is that the very idea of “business concept” is—and should be—somewhat of a moving target. Thus, any assessment of viability represents a snapshot at one moment in time. Quite often, the initial business concept is “tweaked” substantially before it is presented to the world as a franchise opportunity. Among other things, we help clients through this essential tweaking process. What follows are the core areas we almost always consider in assessing franchisability.

## **Retail Business Concept**

***Product/Service Offering.*** Is it an “essential” business? Does it fill a basic—and recurring—product or service need for a significant population segment or segments? What geographic limits are inherent with the concept, if any? Fad businesses do not typically make lasting franchise businesses, and concepts with only regional appeal may have limited growth potential.

***Proprietary Features.*** Is there anything proprietary and/or legally protectable about the products/services offered?

While few traditional retailers own any patents or trade secrets, ownership of proprietary methods, systems and/or technologies may afford some degree of competitive advantage and sometimes a franchise marketing edge. In addition, many investors are comforted by such assets.

**Differentiation.** How does the business concept differ from competitors? What is unique or “new and improved” about it? What benefits accrue to customers from the differentiating factors?

**Branding.** Does the company have unique and attractive trademark(s), a characteristic “look and feel” for its retail units, and differentiated labels/brands for its products and services? Are the branding elements appropriate to the business concept and do they differentiate the business concept from competitors in a positive manner? Are the branding elements consistently executed?

**Location Setting.** What is the preferred retail setting for the business concept? Mall? Free-standing? Strip centers? Other? Are suitable retail locations readily available in target development territories?

**Geographic Draw.** How large a geographic territory is required to sustain a profitable retail unit? What demographic characteristics describe this territory?

**Operations.** Are the business operational and management procedures reasonably simple, straightforward and intuitive? Can they be readily documented and taught to targeted franchisees and their employees in a reasonable amount of time?

**Marketability.** How does the business attract customers and what are the economics of its local advertising and marketing programs? What (if anything) about the concept encourages customer loyalty and regular repeat business?

#### **Retail Market and Competition**

**Customer Profile.** How can the target retail customers best be characterized in demographic terms?

**Competitor Profiles.** Have key national and regional competitors (both franchised and non-franchised) been analyzed and profiled?

#### **Marketability of the Franchise Offering**

**Franchisee Profile.** What are the investment and experience requirements for successful franchisees? Are an adequate number of qualified prospects readily available?

**Performance.** Is the offering's financial performance competitive with other offerings in its investment range?

**Market Appeal.** Does the offering have enough “sex appeal” to

be competitive with other offerings in its investment range? Does the business have an appealing “sales story”?

**Marketing Methods.** Given the investment and experience requirements of the target franchisee and the current competitive environment for business opportunities, can the franchise offering be marketed cost-effectively?

#### **Business Operation**

**History.** How long has the business been in operation? How many retail units are currently in operation and for how long?

**Performance.** How has the business concept performed under actual market conditions? Revenues? Profitability? Break-even point? Return on investment? What factors make for a profitable retail unit?

**Investment.** What investment is required to open a retail facility? What portion of this investment can be financed? Does the franchisor offer or intend to offer—or facilitate—financing?

**Build-out.** Are permitting and construction simple or complex? Are there any significant waste disposal or other environmental issues?

**Timing.** How long does it typically take to get a facility “up and running”?

**Documentation.** Have the operating procedures (including marketing and advertising tech-

niques and materials) been tested, fine-tuned, systematized and adequately documented?

### **Franchisor Management**

**Strategy.** Does the prospective franchisor have an adequate (and realistic) business plan for the proposed franchise retail business concept?

**Experience.** Does the franchisor have a creditable track record in the industry? Does the franchisor have experience working with business owners (franchisees)? Does the management team “look good on paper”? Although not necessarily critical for selling franchises, the management dimension can be key to raising capital and forming alliances that may be critical to growth down the road. And, of course, competent management is always crucial to the ultimate success of any business.

**Capital.** Does the prospective franchisor have adequate capital—or access to adequate capital—to support the franchise development and expansion phases?

**Culture.** Is the prospective franchisor's existing business culture suited to the franchising form of business relationship?

### **Alternative Distribution Methods**

**Conversion.** Is the business concept appealing enough to be able to convert existing busi-

ness owners to franchise operation?

**Fractional.** Is the business concept conducive to marketing as a “fractional” franchise, a branded franchise module operating within another retail business?

**Starburst.** Is the business concept applicable for a Starburst-type “hub and spoke” distribution model?

### **Meta-Factors**

In addition to considering factors such as those identified above, we may also consider a variety of what we call “meta-factors” in our assessment of a client's business concept or prototype. On the market side, these may include issues like changing demographic patterns and changing consumer purchasing behavior (e.g., the increasing proportion of retail purchases made via e-commerce, catalog and television shopping channels). On the franchisor side, we consider more abstract issues like the franchisor's strategic vision, general business savvy, marketing mindset and understanding of franchising management issues.

### **EVALUATING THE ANSWERS**

It would be convenient to be able to plug answers to these questions into a computer model and let the computer decide. Unfortunately, we don't

know of any such model. This sort of business analysis, just like business itself, is still as much art as science. So we conduct franchisability assessments the old fashioned way, with a lot of hard thinking and judgment based on a decades of real world experience with many different kinds of business challenges. And we throw in a healthy dose of creativity as well: many business concepts can become franchisable with some creative “massage.”

### **THE BOTTOM LINE**

In our view, becoming a successful franchisor starts with an honest evaluation of factors like those we've just discussed. As we've suggested, some missing pieces can be readily “fixed” to improve the franchisability of the business concept. For example, many successful retail businesses don't initially have the capital to “do franchising right.” Entrepreneurs who are serious about growing their business via franchising will raise the necessary growth capital. Branding is another “fixable” area. Other potential problem areas—like having a business culture unsuitable to being a franchisor—may not be so easy to fix. In the end, much of the franchisability of a business concept is in the hands and minds of the entrepreneurs who want to grow via franchising. ● ● ●

## ABOUT THE AUTHORS



E. Todd Ellison, MBA, is a co-founder and Senior Partner of Janssen Ellison Company.

He is a business growth generalist with three decades of experience as executive, entrepreneur and consultant. He has consulted to organizations ranging from Fortune 100 firms to start-ups and has more than two decades of hands-on franchising experience.

Mr. Ellison's expertise includes strategic planning, business and marketing strategy development, market research, franchising system development, advertising and corporate image development. He has an unusual ability to blend the creative, the analytical and the practical and has co-authored numerous articles and papers on franchising and related topics.



Jean-Louis Janssen, MBA, is a co-founder and Senior Partner of Janssen Ellison Company.

He has been intimately involved in all aspects of franchising for three decades, including owning and operating two franchise companies totalling more than 300 franchise units.

As a business growth generalist he has helped numerous companies—from Fortune 100 multinationals to start-ups—investigate and implement franchising and other third-party distribution strategies, and establish successful new or expanded businesses. He has also performed successful turnarounds of troubled companies in the field.

Mr. Janssen has co-authored numerous articles and papers on franchising and related topics.

## ADDITIONAL READINGS

*The following articles are among those available on the company's website at:*

*[www.janssenellison.com](http://www.janssenellison.com)*

### **Some Plain Talk About Franchising**

*This article is a "must read" for any company exploring the idea of getting into franchising other third party distribution methods. It illuminates some of the dominant fallacies as well as some of the untapped possibilities of franchising as a business method.*

### **The Human Edge in Franchising**

*Managing relationships is a messy and imprecise business—more art than science. This article characterizes the changing nature of this human relationship at different stages of the franchise business relationship.*

### **What Makes a World Class Franchisor?**

*The seven essential characteristics that true world class franchise companies share.*

### **Issues in Conversion Franchising: An Example**

*Conversion franchising is one of the most powerful business tools ever created for rapid growth and brand building. Here we explore some of the "ins and outs" of conversion franchising, in this instance as applied to the gasoline and convenience retailing industry.*

### **A Conversion Franchising Fable**

*This is a conversion "what if" that illustrates what could happen when the right combination of vision and resources come together in a retail industry that's ripe for consolidation. It has happened before and it can happen again.*

# ABOUT JANSSEN ELLISON COMPANY

## COMPANY OVERVIEW

Janssen Ellison Company specializes in business growth and marketing disciplines, particularly third-party distribution methods including various forms of franchising, distributorships, joint ventures and innovative business alliances. Services range from strategic opportunity analysis to complete development programs to conflict resolution to innovative marketing campaigns.

The firm was established in 1988 and has served clients in a wide range of industries. Because each client's needs are unique, the firm's philosophy is to approach each assignment with a "clean sheet of paper" instead of a formula, and to take an active, hands-on, role in helping clients meet their business goals.

## REPRESENTATIVE CLIENTS

- Avon
- California Pizza Kitchen
- Cash Plus
- Clean'n'Press
- Franchise Consulting Group
- Futurekids
- General Mills
- Greyhound Lines
- Hard Rock Cafe
- IBM
- Marriott
- Miracle-Ear
- Mobil
- SCORE@Kaplan
- Stride Rite Footwear
- Western Auto
- Westinghouse

## FOR MORE INFORMATION

Companies or entrepreneurs interested in learning more about how franchising techniques might be applied in their own setting are invited to contact Jean-Louis Janssen at Janssen Ellison Company.

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