



# your money

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## Foundations of franchise success

*Preparation must go with chemistry*

SRIWIPA SIRIPUNYAWIT

### READINESS CHECKLIST

Answer these questions to see if you are ready to franchise your business

**1 Do you have a profitable operating prototype?**

- ... Yes
- ... No

**2 How many units do you have in operation?**

- ... 1
- ... 2
- ... 3
- ... 4
- ... 5 or more
- ... None

**3 How long has your business been in operation?**

- ... Not in operation yet
- ... Less than 6 months
- ... 1 year
- ... 2 years
- ... 3 years
- ... 4+ years

**4 To what degree is your business distinctive from its competitors?**

- ... Not very
- ... Somewhat
- ... Very
- ... Unique

**5 How much would it cost to open one of your locations, not including franchise fees?**

- ... B4 million or more
- ... B2m to B4m
- ... B1m-2m
- ... B500,000 - B1 million
- ... Less than B500,000

**6 The market for your business or service is:**

- ... Local
- ... Regional
- ... National
- ... International

**7 Competition for the products or services you sell is:**

- ... High
- ... Moderate
- ... Minimal

**8 How systematised is the business?**

- ... Very little
- ... Some basic policies and/or handbooks
- ... Very well documented
- ... Computerised

**9 How long would it take you to teach someone how to operate your business?**

- ... Special certification needed first
- ... 2-6 months
- ... 1-2 months
- ... 1-3 weeks
- ... Less than 1 week

**10 How do your business's sales compare to those of other businesses in your industry?**

- ... Much lower
- ... Somewhat lower
- ... About the same
- ... Somewhat higher
- ... Much higher

To check your score, see

<http://www.francorpmalaysia.com/quiz.php>

Source: Francorp

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Embarking on a franchise business is no walk in a park. Though the chances of failure are generally lower than with starting a business from scratch, there are always risks. Selecting the right franchisor or a franchisee is equally tough. Some say it's like a marriage - getting in is easy but getting out can be hard and painful.

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Faiz: Profitability is the starting point

The causes of failure are varied, says Affandy Abd Raof Faiz, the president and CEO of Francorp, a Malaysia-based franchise development and consulting company. They include lack of readiness by owners to operate a franchise system; poor preparation and planning; a business that may be unsuited to being franchised; troubled relations between franchisors and franchisees; franchisors picking the wrong franchisees

and vice versa.

He offers some perspective by saying that franchising is just one of many ways of expanding a business. If you're comfortable with having someone else use your brand, trademarks and business system in return for fees, then franchising could be for you.

First, though, you need a track record - at least three years of proven and profitable performance, in Mr Faiz's view. "No one wants to buy a business that's not profitable even though it's existed in the market for a long period of time."

You also need a business model - physical appearance, internal system or technical knowhow - that can be duplicated. You also must be able to share your expertise and commercial secrets with franchisees without the fear of loss of control or emerging rivalry.

As well, the business must offer a return that appeals to prospective franchisees - better than other investments such as stocks, bonds, property and the like.

Not every business can be franchised. Ventures in fast-changing industries, for example information technology, pose problems as it can be difficult for both franchisors and franchisees to keep up while developing their businesses. Enterprises that traditionally offer low margins are also unsuitable, given that the franchisee needs to set aside a portion of profits to pay royalties. "If the margin is very narrow, then the franchisees will be left with nothing," says Mr Faiz.

The business should not require too high a capital investment or be highly labour-intensive. In the latter case, quality control can suffer if the operator has too many people to oversee. It also helps if the business is associated with a certain level of barriers to entry in order to reduce the risk of copycat operations emerging.

Once an operator has decided to embark on the franchise route, Mr Faiz says it usually takes around six to 12 months to develop a reliable franchise system before it can be marketed. The most difficult step is to determine whether the owner is ready to take the first big step and if the business itself is suitable for franchising.

Francorp has devised a simple but effective 10-question

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checklist that can help an operator reach a decision. It can shed light on factors necessary for franchise success, including longevity, profitability, capacity for system replication, marketability and originality (see chart). If one wants to proceed with a franchisor, a score of at least 70% on the test is considered essential.

"Typically, only three out of 10 owners score up to the standard and can proceed with the plans," says Mr Faiz.

For those who are ready, Francorp offers a franchise development programme. The services include strategic planning and structure, legal documentation, operational services, franchise marketing, sales training and support, management training and general consulting and review.

Usually it costs around one million to five million baht to complete the project. The fees vary according to the services provided and the size of the business.

Globally, Francorp has advised 8,000 companies and developed more than 2,000 franchises. Its clients in Malaysia include: Amee Philips, Save & Save, CN Health & Beauty, Ridpest, Gift N Logo, to name a few. With headquarters in Chicago, the company has a total of 12 offices including New York, Los Angeles, Kuala Lumpur, Santiago, Tokyo and Manila. It plans to open a new office in Bangkok this year.

Mr Faiz also advises business owners not to expand their ventures overseas until they are able to prove success locally. Those looking abroad must also consider whether their business will work in another country from a market and cultural perspective, as well as considering costs, legal, tax and other issues.

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