

EFFECTIVE SELECTION OF SUCCESSFUL FRANCHISEES AND PRODUCTIVE  
EXPECTATIONS FOR FRANCHISEES BY FRANCHISORS

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Prepared for:

International Franchising Association Members  
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International Franchising Association

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Dear IFA Members:

Following is the report deals with the concern of “Effectively Selecting Franchisees With Potential Success.”

The purpose of this report was to conduct research over how to select franchisees that will have the greatest potential to become successful. Moreover, having a tabulation of replies from franchisors that are fast food, non fast food and so on, was valuable to our team's research to the International Franchising Association Members (IFA) that will be helpful in successfully selecting and recruit new franchisees.

It has been a pleasure working on this project for IFA. Should anyone have any questions or concerns please do not hesitate to contact our team. We can be reached by phone at (317) 865-4544 or by email [ifaexecutive@research.com](mailto:ifaexecutive@research.com). We will follow up with anyone that is interested in more information and that has questions.

Sincerely,

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## **Executive Summary**

Chipotle, once known for their fresh burritos filled with environmentally friendly meats, homemade salsas, and chunky guacamole is now known for disease and unsanitary food. The e coli outbreak at Chipotle was investigated at only a few Chipotles in just 11 states. Less than 1% of Chipotles were even investigated, yet harm was done to all franchises. Profits in the months following the e coli outbreak plummeted 82%, even in states without a single outbreak. Even now, years later, stock prices have not fully recovered. It is important that franchisees make sound business decisions, because each franchise represents the brand as a whole. Franchisees have many important responsibilities. They are in charge of day to day affairs and decision making. A good franchisee makes intelligent business decisions, builds good relationships with customers and employees, and works within the guidelines set by the franchisor to achieve higher profits. As qualified as a potential franchisee may be, it is important to remember that as with many things, there is no right franchisee if it is not the right time to franchise. A franchisor must ensure that there is a demand for their products/ services in a new location. The decision to franchise is big and a franchisor should proceed with confident caution, taking only calculated risks. A franchise will benefit both the franchisee and the franchisor if done correctly, but can financially devastate both if done poorly.

Franchisees are like teenagers. Leave them home alone for a month and who knows what they might do. In contrast, micro managing their lives will lead to disinterest, resentment and possibly lying, sneaking around, or rebellion. The franchisee-franchisor relationship must have respect and trust if nothing else. Franchisees must respect the franchisor enough to follow guidelines, and trust that the guidelines are in their best interest. Equally important, franchisors must respect and trust franchisees enough to allow them freedom to run their business and make decisions on a day to day basis. Given the nature of this relationship, it is essential that both parties have patience and cooperation.

Following the report are recommendations in the selection of franchisees, and continued involvement between the franchisor and the franchisee. When selecting a franchisee, it is important to determine their coachability, business skills, people skills, motivation, and financial resources. Questions to ask potential franchisees to expose their abilities in the preceding areas are provided. Questions are direct, but not obvious in their purpose so that franchisees will answer honestly. Recommendations also highlight the importance of maintaining a relationship and consistent communication between the franchisor and franchisee.

## **The Problem and the Plan**

### INCIDENTALS OF AUTHORIZATION AND SUBMITTAL

The following report has been constructed for the IFA annual convention to benefit its members. Through this report, the IFA hopes to educate and advise its members in areas such as selections of franchisees, the recruitment of franchisees, and the involvement needed of the franchisee.

IFA has been an organization that allows its members to grow and network in order to achieve greater success for each active member. Through this report, knowledge and guidance into the development of franchises will be distributed to the members of IFA. With some of the largest challenges of franchises being recruitment and involvement, this report hopes to give IFA members statistic backed advice on these areas.

The data for this report was collected in an accurate and efficient fashion. Through personal telephone interviews with directors of franchising of 200 franchises, the statistics were collected and then tabulated (Appendix 1). These franchises included business from numerous industries including fast food, nonfood, and more. Questions during these interviews included topics such as franchise recruitment, desirable characteristics, franchise involvement, reasons for personal involvement, and factors important to success. More data into franchising trends and expectations was collected through secondary research.

### EFFECTIVE SELECTION OF FRANCHISEE

There are many components that go into choosing an effective franchisee. When selecting a franchisee, a franchisor has to take into account many of these component. This report will dive deeper into these components and give recommendations of how to effectively selected a franchisee. Some of these aspects of selection include expectations of your franchisee and also when/where to franchise.

### NECESSITY OF SUPPORT OF FRANCHISEE

One of the areas of concern among many IFA members related to the necessity of support of a franchisee. Through research into this subject, this report touches on some of the key areas of the relationship between franchisor and a franchisee. Some of the aspects of these relationships include communication and expectation. Recommendations were made as to what an effective relationship would be in a franchisee situation.

## A PREVIEW OF THE PRESENTATION

It is important to note that this report covers that analysis of franchisee relationships, the recruitment process of franchises, and benefits of a successful franchise. Also included at the end of this report are recommendations for IFA members.

### **Successful Selection of Franchisees**

#### DESIRABLE QUALITIES IN FRANCHISEES

When involved with a franchising operations there is certain qualities to look for in choosing franchisees that will have the most potential to become successful. A poor choice in a franchisee would harm a franchisor's reputation and would negatively affect the business. There are five key qualities to look for when looking at a franchisee; moreover, that is coachability, business skills, motivation, people skills and financial stability. Coachability or following the system as Eddy Goldberg translates it, states "The franchisor's operating system has been developed, refined, tested and proven over time in many locations" (n.d.). Customers expect identically with every location this provides familiarity for the customers; however, if there is a more profitable concept it is highly recommended that it is discussed with the franchisor (Goldberg, n.d.)

Having the right tools will better build a franchising operation and using business skills is another major key. Experience or educational business background is more likely to increase success. Using tools such as marketing, communication and management are all part of building blocks for success. 7 Traits of a Great Franchises states "Businesses can take time to get up and running and then into a position of profit... You should be able to drive yourself and not need to be pushed. You are investing your time and money after all" (2016). Being self-motivated and knowing why open a franchise should be important for the franchisor when considering and looking for franchisees.

People skills and financial stability are the fourth and fifth major key for desirable qualities in franchisees. It is important to be relatable to the employees and customers making them feel valued to return back and recognize the franchise (Goldberg, n.d.). Last of all is being financially prepared before starting up a franchise. This means having enough to live on and not struggling with debt. As a franchisor make sure that a franchisee is able to pay royalties fees regularly. "Some systems require a regular marketing fund. This means you need to ensure you have enough funds for the initial cost plus working capital to meet your other financial obligation to the franchisor for their support and expertise" (7 Traits of a Great Franchise, 2016).

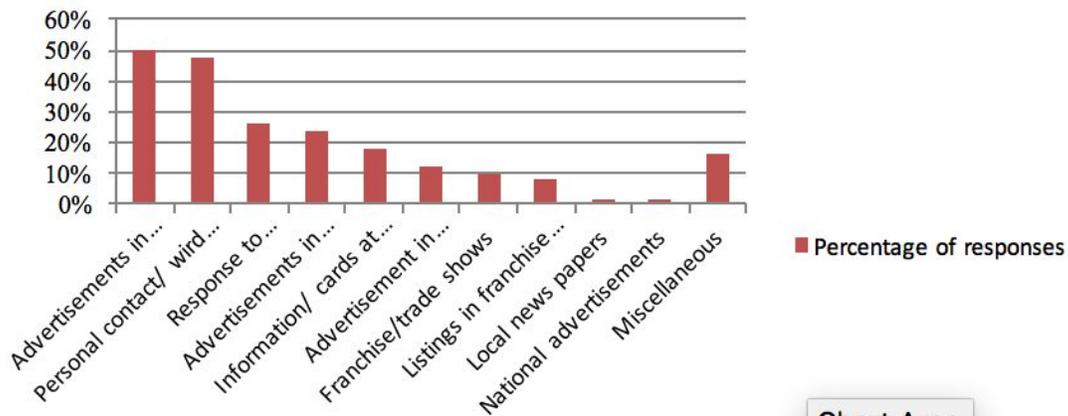
#### HOW FRANCHISEES ARE RECRUITED

Franchise recruitment is a complex process. The recruiter needs to simultaneously play the role of salesperson, life coach and HR selection person. According to Mr. Robert A. Gappa, the president of "Management 2000", the process used to recruit and select qualified franchisees is

similar to the process used to recruit and select employees. The franchise licensing representative must determine whether the candidate is right for the system and if the system is right for the candidate. As with the employment process, there are several steps that lead to a decision to join an organization.

1. Define qualifications profile and criteria
2. Promote the position and search for the candidate
3. Initial the primary contact with the candidate
4. Request for consideration
5. Interview
6. Validate the franchisee
7. Application, approval, granting of franchise license.
8. Franchise fees paid and franchisee agreement signed.
9. Franchisee training.
10. Franchisee's initial unit opens.

**Chart 1: How Franchisees are recruited**



Source: Primary

Following to the survey's results, the most used recruitment type of franchisees based on 50 observations of franchisees directors, are the advertisements in major newspaper with 50% of responses followed closely by the personal contact/word of mouth with 48% of responses.

Franchisee recruitment and selection is a process which must focus on the candidate motivations or reasons for acting. It creates the future of a franchise system. To remain competitive and to reach the full potential of franchising, a franchisor must have a strong franchisee recruitment and selection process.

## IMPORTANCE OF EFFECTIVE FRANCHISEES

Franchisees are the owners of a franchise who must make crucial leadership decisions while running a franchise although certain decisions have been predetermined by franchisors. Franchising is based on a relationship between the brand owner and the local operator to successfully extend an established business further. This means choosing an effective franchisee is very important when trying to build a franchise. An effective franchisee must protect the franchised brand by operating the franchise in compliance with system operating standards (Daszkowski). A franchisee should also be obligated to build a strong customer base by offering only approved products and services (Daszkowski). An effective franchisee should also be able to ensure that all employees are properly trained and that the franchise is properly staffed at all times (Daszkowski). Without an effective franchisee running the business properly it is not likely that the franchise will succeed and the business will not be able to expand.

## WHEN TO FRANCHISE

As a franchisor, knowing when to expand the business further is crucial for the success of a franchise. Making the move to expand to more stores quickly may bring in more revenue but franchisors must be ready for upfront costs. It is never a good idea to spread a franchise too thin, or to expand too early without first being fully established. Franchisors are responsible for providing all guidance necessary for franchisees who have invested in the concept of the business (Siebert). Three important criteria to consider before franchising include: the ability to sell franchises, the ability to duplicate the business, and the ability to provide franchisees with an appropriate return on the time and money they invest in the business (Siebert). Businesses must have at least one thing that sets them from their competitors, such as a unique recipe, proprietary products, or support services for their franchisees (Siebert). Franchisors cannot be afraid to take risks, but must be sure the time is ready and the business is strong enough in the market to succeed before choosing to franchise. Taking the necessary steps and assuring that a franchise is ready to operate may lead to a very successful business model.

## BENEFIT OF FRANCHISING

The primary advantages for most companies entering the realm of franchising are increasing profits and the market share, speed of growth but also reducing the risks. According to *Mr. Mark Siebert*, franchising helps you grow your businesses.

- Increasing capital:

Franchising, as an alternative form of capital acquisition, offers some advantages. The primary reason most entrepreneurs turn to franchising is that it allows them to expand without the risk of debt or the cost of equity. First, since the franchisee provides all the capital required to open and operate a unit, it allows companies to grow using the resources of others. By using other people's money, the franchisor can grow largely unfettered by debt.

- Speed of growth:

Franchising may be a way to ensure that a franchisor captures a market leadership position before competitors encroach on their space, because the franchisee performs most of these tasks. Franchising not only allows the franchisor financial leverage, but also allows it to leverage human resources as well.

- Reduced risk:

The franchisee has all the responsibility for the investment in the franchise operation, paying for any build-out, purchasing any inventory, hiring any employees, and taking responsibility for any working capital needed to establish the business. The franchisee is also the one who executes leases for equipment, autos, and the physical location, and has the liability for what happens within the unit itself, so the franchisor is largely out from under any liability for employee litigation (e.g., sexual harassment, age discrimination), consumer litigation, or accidents that occur in the franchise (slip-and-fall, employer's comp, etc.).

### **Success Generating Expectations of Franchisees**

#### **EXPECTATIONS OF FRANCHISEES AND FRANCHISORS**

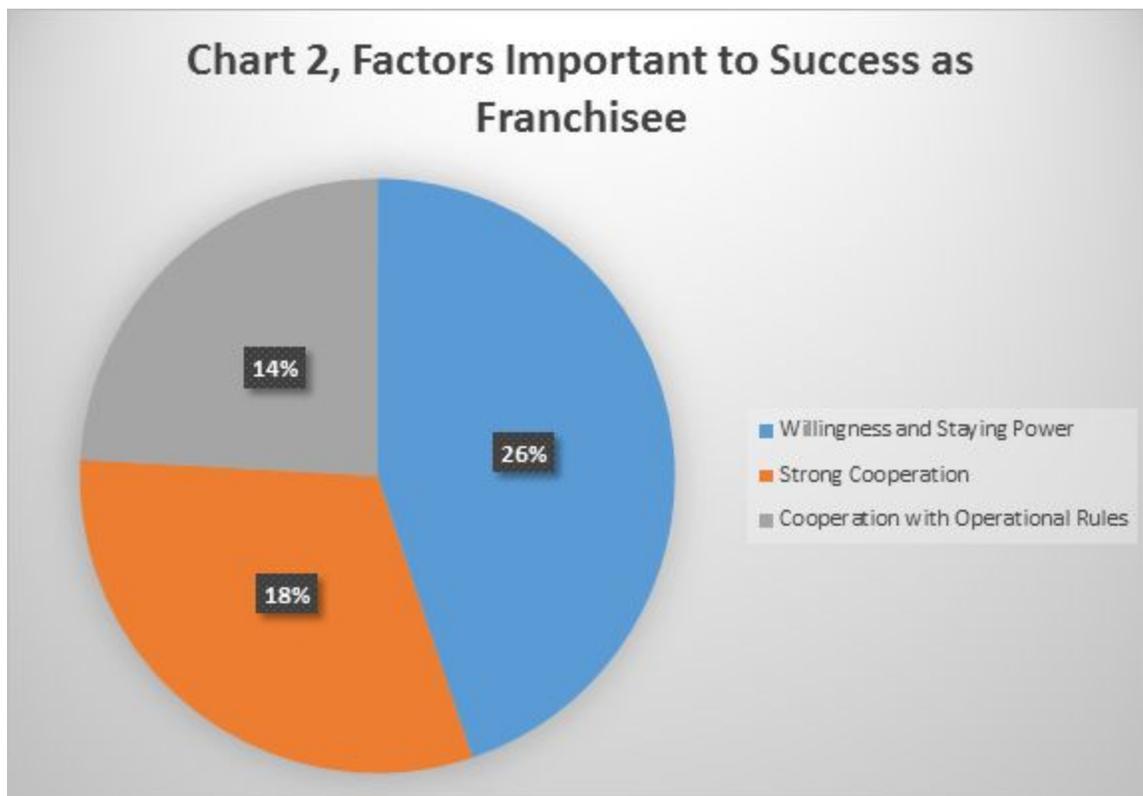
When franchisees buy into a franchise they are entering into a business relationship with franchisors. All business relationships come with expectations for both sides. The expectations from a business relationship are different depending on what type of business relationship. In this case the business relationship is a franchise relationship. Franchisees generally have four expectations for franchisors when entering the relationship (TapSnap). The four expectations of franchisees are Business advisory and supportive role, Focus on ongoing business expansion and innovation, Be a well-oiled machine, and Brand reputation management and growth. Business advisory and supportive role means that franchisors provides necessary support systems to help run franchisees and fix any problems that arise in course of conducting business. Focus on ongoing business expansion and innovation means that franchisors take on burden of innovating and staying competitive in field. Be a well-oiled machine means that franchise have an effective and standardized structure in play. Brand reputation management and growth means that franchisor are responsible for maintaining overall brand reputation while also increasing awareness, and development for the brand. While Franchisors generally have three expectations for franchisees. The three expectations of franchisors are Follow the franchise's system and operations, Manage the success and growth of the franchised business, and Marketing and upholding the brand's image.

Follow the franchise's system and operations means that franchisees follow the operating procedures established by franchisors for franchisees. Manage the success and growth of the franchised business means franchisees are responsible for success and growth of their part of the

franchise. Marketing and upholding the brand's image means that franchisees are responsible for markets in their area and upholding the brand's image.

### FACTORS IN A SUCCESSFUL FRANCHISE

Franchisors layout the groundwork for a successful franchise by provide a proven model of success. Franchisors also provide the necessary support systems, so the franchisees can focus on serving the customers. All of that being said it does not guaranty that franchisees will be successful in the franchise. There are several key factors that franchisees need in order to be successful. The four key factors are willingness to learn, being able to work in a team, being committed, and patience (Hemenway). Willingness to learn is important because franchisors have developed a success business model for franchisees. If franchisees are not willing to learn from franchisors then they will make mistakes and will likely fail in franchise business. Being a team player is important because the entire franchise system is based on corporations. When referring to being committed it does not just refer to work at their franchise full-time, but going to franchisor-franchisee meetings and training sessions. Patience refers to the fact that franchisees that may take months or longer before they start making a profit. The following shows a graph based off Table 5 of survey data gathered by asking the 50 franchising directors.



Source: Primary

Willingness and staying power from the graph is referring to patience and being committed is talked about earlier in this section. The graph shows that 26% of 50 franchising directors said

that it is major factor in succeeding in the franchising business. Strong cooperation from the graph is referring to the fact that the franchisees need to be a team player, and 18% of 50 franchising directors said that it is major part in success. Cooperation with operational rules from the graph is referring to the fact that franchisees need to be willing to learn from franchisors, and 14% of 50 franchising directors thought it was important enough factor to mention it in the survey.

## **Recommendations**

The first recommendation details the selection of a franchisee. Franchisees reflect on their franchisor. If one franchise is poorly managed, it will negatively affect business in other franchises. For this reason it is important to choose the most effective franchisees. Following is a checklist indicating the top 5 most important qualities in a franchisee. Along with the quality there is a question to ask a potential franchisee to determine their competence regarding the specific quality. These questions are designed to show the franchisor the franchisees true abilities. It is recommended that franchisors ask franchisees all of the following questions before going into business with them.

- Coachability: This is essential if a franchisor wants to maintain control over their franchises.
  - ◆ “If the franchisor tells you to change the way you are doing something but the way you are doing it generates more profits will you change or no?”
- Business skills: Experience or education in business administration, management, or marketing will increase the chance of success of the franchise.
  - ◆ “What have you done that demonstrates your ability to own a profitable franchise?”
- Motivation: This factor determines the time and energy the franchisee will put into the franchise
  - ◆ “Why do you want to open \_\_\_\_\_ franchise?”
- People skills: A successful business owner is likeable and relatable. The same goes for a successful franchisee.

- ◆ “Please tell me how you handled a situation where a customer or coworker was wrong, and you were right.”
- Financial resources and stability: Starting up a franchise costs money, and it is riskier to take out loans. Loans, especially to someone who has not proven himself to be financially stable, often have high interest rates making them difficult to pay back. A franchise represents the brand. Stores going out of business is not a positive representation.
  - ◆ “How are you going to get the money to start the franchise?” “How will you financially survive if your franchise is not profitable for the first month? 3 months?”

The second recommendation to a franchisor is to maintain a relationship with franchisees whenever possible. Consistent, constructive communication is vital to the success of the franchise. The franchisee needs to understand the expectations of the franchisor. Equally, the franchisor needs to listen to the franchisee to improve the corporation. A huge factor in franchise success is reliability. When people go into a franchise, they do not want to be surprised. In order to maintain reliability, ensure standards are being met, and discover opportunities to improve all franchises communication is necessary. If there are too many franchisees for a franchisor to maintain communication, it is suggested that a system using regional managers who report to the franchisor be used. This relationship will also be beneficial in product or service improvements. The franchisees are more directly related to the customer, so they may have ideas on how the product or service could better serve the customer.



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**(7 Traits of A Great Franchisee, 2016)**

Appendix 1:

**TABLE 1: How Franchisees are recruited**

<b>How Franchisees are recruited</b>	
<b>Choices</b>	<b>Percentage of responses</b>
Advertisements in major news paper	50%
Personal contact/ word of mouth	48%
Response to unsolicited inquiries	26%
Advertisements in trade papers	24%
Information/ cards at stores	18%
Advertisements in magazines	12%
Franchise/trade shows	10%
Listings in franchise directories	8%
Local news papers	2%
National advertisements	2%
Miscellaneous	16%

**TABLE 2:Desirable Personal Characteristics**

<b>Desirable Personal Characteristics</b>	
<b>Choices</b>	<b>Percentage of responses</b>
Net worth/adequate money/ financial stability	30%
Business skills/ business sense	30%
Track record/background/history of success	24%
Motivation/enthusiasm/determination/ambition	24%
Educational background for this business	22%
Experience in this business	22%
Personal commitment to business	16%
Honesty/character	16%
Work ethic/energy	14%
Ability to work with people	12%
Aggressive/outgoing personal	10%
Good communication skills	10%
Active involvement in the business	8%
Management ability/leadership	8%
Intelligence	6%
Maturity	4%
Hands-on approach	2%

Ability to operate clean shop	2%
Do not look for personal characteristics	8%

**Table 3: Involvement of Franchisees**

Involvement of Franchisees	N=50
All of them work personally in their stores	2%
Most of them work personally in their stores	66
Some work in their stores and are absentee owners	26
Most of them are absentee owners	6
All of them are absentee owners	0

**Table 4: Reasons for Personal Involvement**

Reasons for Personal Involvement	
Hands-on-policy/watch the business/control/right on top of it/most failures had multiunits	62%
One with money at risk does better job/ requires full commitment	49%
Understands customers better/know what public wants/know the town/be a community member	36%
Sensitivity is heightened/ can relate to problems/more involved	25%
At beginning it's important until they get good people/depends on number of units/with multiples can use time better in development and management	21%

**Table 5: Factors Important to Success**

Factors Important to Success	
Skill and background for business	32%
Capital/having it properly financed	30%
Willingness and staying power to put in hard work, time, and money	26%

Location of unit	24%
Franchisor support/franchisor who has the "bugs" worked out/quality of the franchise	18%
Cleanliness/quality of store, personnel, service	12%
Character/attitude/cooperation with operational rules	14%
All important factors were previously cited	12%