

ATENEO

Magisterial
Lecture SERIES

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*Unlocking the Power of the
Franchising Format:
Selecting the the Right Franchisor*

- Franchising is a quick and easy way of getting into business:
 - Established business with a well-known brand name and proven track record
 - No need to develop your own expertise--- tap into the experience and the expertise of the franchisor
 - It usually entails significantly lower risk than starting something on your own
 - Works well for people who:
 - have already accumulated some capital that they are looking to invest,
 - want to go into business but do not have a very clear idea of a new product or service they would like to provide, or
 - do not have the expertise to start anything up on their own

- For today's lecture, I will focus on what I consider to be the first step for anyone who wants to get a business franchise:
 - selecting the “right” franchise opportunity, the “right” franchisor.
 - In future lectures, we can talk about expanding your business, diversifying your risk within the franchising format, the secret to effective collaboration with your franchisor to get the most out of your investment.
 - And just for context, and for full disclosure: I feel that I need to share that aside from teaching at the Ateneo, I am also a franchisee and entrepreneur. My first (and longest) franchise relationship has been with Jollibee Foods Corporation. I opened my first store in 1991! I have also had a number of other franchise relationships. Some good, some bad.
 - my presentation today is drawn from experiences I have had over the last 29 years, so my examples are skewed towards the fastfood industry.
 - But the principles I describe will be valid regardless of industry!

THREE KEY STEPS



- Know Yourself
- Know the Franchisor
- Look for the Right Fit

- I begin with the third point: Finding the Right Fit:
- Look for that happy intersection between what you are looking/what you can offer, and what the franchisor is looking for/what they can offer
- Studies have shown that when franchisees are carefully selected, (and I can share, from my own experiences), that franchised outlets are typically able to outperform company-owned outlets
 - ENTREP SPIRIT AND PERSONAL ATTENTION
 - not present for company-owned outlets that are largely operated through a hierarchy of employees and managers
 - The importance of this "malasakit" is easily demonstrated through an everyday example: (When you check into a hotel, leaving the airconditioner on all day...)
- AND SO: A franchise relationship, like any other business relationship, can best be compared to a wedding: an essential ingredient for long term success is the ability to find the right match!

KNOW YOURSELF

- What are you passionate about?
- What resources do you have access to?
- What do you want to get out of the franchising relationship?

Know Yourself

- What are you passionate about?
 - Don't invest in a business or industry that you are not interested in! Do you really want to spend your time working on something that holds absolutely no attraction for you? Your lack of interest will eventually manifest itself in your business performance and your financial results.
 - You have to personally believe in the product. If you wouldn't use the product, why would you expect others to?

- What resources do you have access to? What do you bring to the table?
 - Funds:
 - Three terms you should understand: (a lot of people ask me how much the franchise fee is for a Jollibee outlet, and usually react, “yan lang...?” because they mistakenly thought franchise fee = total investment
 - Franchise fee
 - Total investment requirement
 - Royalty
 - When starting out, IT IS THE TOTAL INVESTMENT REQUIREMENT that should be your first concern.
 - Expertise: product or technical expertise, business and management expertise
 - Access to a prime location
 - Network/Contacts (a few words about network... do you really need all of that capital? My own personal example.)
 - Time

- What do you want out of the business?
 - Profits, of course.
 - But the needs can be very different
 - for someone who has retired and is using his savings and retirement pay (needs security, and an immediate, stable source of income!)
 - vs a young person who is just out of school (willing to take more risks, can take a longer term view so that less income today is okay in exchange for more income tomorrow; potential growth and expansion opportunities, reinvestment opportunities, are more important, potentially more “patient” capital)
 - The older person needs to look for a mature brand that might not be growing so much anymore, but has the potential to generate steady and reliable cash flows. The younger guy would be more willing to invest in a newer brand with a lot more growth opportunity, and reinvestment possibilities
 - How actively involved do you want to be? Some franchisors prefer that you step aside and let them run your store for you. Others want their franchisees to be actively engaged and hands-on.

KNOW THE FRANCHISOR



- What is their business track record?
- What is their reputation?
- What do you know of their values and character?

Know your franchisor

- Track record?
 - Homegrown brands: Casa Ilongga, Miggy's Super Tacos, Chopstix, Chic-Boy, Country Waffles
 - Foreign brands: Donut Magic, Copenhagen Ice Cream, IHOP,
 - Never heard of them? For good reason! They have all pulled out of the market, with a lot of their franchisees losing their entire investment. Variety of reasons: overexpansion (too much, too fast), inexperience, inability to support multi-site operations, bad business model, product was only a fad, inability to maintain food quality,
 - How long have they been in business? How much experience do they already have? Have they established a reputation for consistency of product and service quality across multiple sites? Has the company set up the necessary infrastructure to support large-scale, multi-site operations? How is their commissary set up? What is their management set-up? How deep is their bench of leaders and managers, and how competent are they? Has the founder of the company transitioned from being an entrepreneur/innovator to a leader and manager?

Know your franchisor

- Reputation, brand equity?
 - What are you getting in exchange for your investment?
 - Eg video shops
- What do their existing franchisees say about the level of support they have received from the franchisor? What do their suppliers say about them?
- Other franchisees, suppliers, customers, good source of info.
 - Example: many suppliers became franchisees of Company X. This could be due to their having had a good relationship, and their realization that it is a great opportunity. Found out later, to my chagrin: because Company X did not pay its suppliers, and offered to pay them na lang in the form of a franchise. This should have rung alarm bells already in the back of my mind.

Know your franchisor

- Under-rated in business: VALUES. How GOOD are the people behind the business? (DIFFERENT FROM: HOW GOOD ARE THEY IN BUSINESS) How honest and ethical have they been in their personal as well as in their business dealings? How are they viewed in the business community? At the end of the day, after all the number crunching and the business analysis, a lot boils down to this final question of CHARACTER:
- To illustrate my point, let me share a story with you here...
- THE FRANCHISOR FROM HELL

The Importance of Character

Contracts are only as good as the people who have signed them.

If you need to rely on the franchise agreement to protect you from your franchisor, he is not the right franchisor for you.

- THE ONLY PEOPLE TO SIGN CONTRACTS WITH ARE THE PEOPLE WITH WHOM A CONTRACT IS UNNECESSARY.
- LET ME SAY THAT AGAIN: THE ONLY PEOPLE TO ENTER INTO CONTRACTS WITH ARE THE PEOPLE WITH WHOM A HANDSHAKE IS ENOUGH.
- NO CONTRACT WILL PROTECT YOU FROM UNETHICAL PEOPLE.
- WHAT IS THE POINT OF A CONTRACT, THEN?

In closing

- A franchise relationship is really like a wedding.
- You don't normally marry just anyone who comes along!
- The marriage can be **heaven or hell**, depending on what the two parties make of it.
- Choose your business partner with the same care as you would a lifetime partner. Take your time. Wait for the right franchise business opportunity to come along.
- **KNOW YOURSELF, KNOW THE FRANCHISOR. FIND OUT IF THERE IS A GOOD FIT.**
- I cannot emphasize enough the importance of **CHARACTER**. Choose your partner well.
- Make sure you will get what you need out of the relationship before you enter it! (Otherwise, why should you bother?)