

# FRANCHISING WORLD

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## LEAD GENERATION

### Innovative Approaches to Attract a New Demographic of Franchisees

Attracting a new demographic may be a necessity, but be very cautious not to make short-term decisions that could have negative long-term effects.

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**F**iguring out how to attract a new demographic of franchisees at a time when lending and confidence remains low can be more than a challenge; it can potentially be a necessity. Growth is crucial for success, but it is important for franchisors to pin down what type of franchisee they are looking for and to keep their focus on attracting candidates who are the appropriate fit for their system. Being honest about the system's strengths and weaknesses is a key part of targeting any kind of franchisee, from initial contact to the final conversations.

#### Adjusting the Model

Tough financial times are putting a strain on everyone's bottom line and many young systems in the franchising community are in need of franchise fees to offset their overhead while the royalty revenue continues to build. This situation often causes short-term thinking that may have lasting effects on the future of those franchise systems; therefore it's critical to plan ahead.

For many franchises, making plans to target a new demographic means lowering the barrier to entry by financing franchise fees, reducing the entrance cost and lowering their financial requirements. Make sure to challenge these methods with the potential long-term repercussions. How likely is it that you will have an increased failure rate because these franchise owners are not capitalized properly? How will that affect validation? Will lenders be more or less likely to support your deals in the future?

For other franchise systems, creating a multi-territory or multi-unit package is a great tool. For example, Spring-Green's executive owner model awards two franchise territories for a higher initial investment fee while offering a larger margin for profitability. This model—and others like it—targets franchisees who want to jump in and grow quickly. This type of model could attract a higher net worth candidate that would likely be desirable to lenders in this environment, but it may also include allowing for a semi-absentee or absentee owner.

Make sure to challenge whether it is important for business owners to be active in the business. Is that part of your success system?

Consider the need to adjust your support, training and franchise agreement to require an operating partner or a properly trained manager. Also consider the market penetration goals you may have for growth in those markets. Will it slow your growth overall—potentially tying up markets that would develop faster with an owner-operator—or develop faster because you have a strong development agreement? Consider the potential enforcement and legal costs if the development schedule is not met. Is your contract clear enough for franchise owners to understand what will occur if they do not meet the development schedule regardless of the unit-level performance?

An even broader approach to growth has been the area development programs where franchises are selling large geographic portions of their business and potentially sharing in deal fees and royalty. Many of the above considerations should be magnified times 10 when considering this approach. This model takes some of the pressure of growing off of the franchisor, but it also requires a franchisor to depend on its area developer.

Ultimately, it is important to know the strengths of your business model and be honest about the weaknesses before you change your requirements. Attracting a new demographic may be a necessity, but be very cautious not to make short-term decisions that could have negative long-term effects. My suggestion is to test these ideas and create action plans to support the potential shortcomings. Get your operations team and financial team on board and proceed with caution. It could be a turning point for the system or it could be a departure from what got you to where you are today.

#### Define the Demographic You're Targeting

Once the model is defined, the next step is to define the target franchisee. Franchisors can easily conclude the right demographic and personality-type to include in their marketing strategy by conducting a top-performers profile assessment. If you are going to a multi-unit/territory profile, access those in your system that have grown to successfully

operate multiple locations. If you are lowering your investment, what are the characteristics of your strongest owner-operators? Knowing this will help you define who you want to attract beyond financial requirements. If you are working with brokers share your profile. The more specific you are, the better they will be at bringing you the right candidates.

#### Communication Style

Once you establish your targeted profiles, it will help you understand and adapt to candidates' communication style.

For multi-unit/territory candidates, you may need to adjust your investigation process and Item 19, providing more fact-based information up front and less time building off of the emotional or lifestyle side of the opportunity. You may choose to reorder your process, moving the investment, FDD and validation forward to meet candidates' communication styles. It may also be very important for you to have them understand your expectation of the market development. This could be a call with an executive team member reviewing the development agreement or it could be built into your Join the Team or Discovery Day.

For an owner-operator with a potentially reduced investment, you may want to have them complete a personal budget worksheet earlier in your process so everyone knows exactly how their personal living expenses will be satisfied while this business ramps up. Another adjustment may be to have the spouse involved earlier and more often in the process if the household income is going to be more reliant upon them. If you are lowering your requirements, you may want to adopt a proficiency testing relationship. These assessments help you understand candidates' computer literacy, which may identify some pre-training needs.

In all of these scenarios, the strength of the process will only be solidified when the necessary funding is available. If you have lessened your requirements, how will these deals get funded? Will the banks approve them? If establishing a third-party lender is needed, have you done your preparatory work? Are you willing and prepared to accept some liability in the transaction?

It could be as simple as proving some assurances to the lender on a buyback for equipment should the loan default or as complicated as weaning yourself off the guarantee as the franchise owner matures.

If you are attracting multi-unit/territory candidates with a higher net worth and already allowing semi-absentee ownership, you should be able to secure a lender that fully understands your business and is committed to underwrite the deals as long as your candidate meets the clearly defined criteria. Nothing is worse than watching the deal cool off as you scramble to get lenders in line.

Creativity is what brought most franchise organizations into existence so foster the innovation. Be careful in tough economic times not to stray too far from who you are as an organization and, most importantly, be honest with your system's strengths and weaknesses. ■

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