

Franchisor Responsibility and Credibility

Winston Churchill once said "The Price of Greatness is Responsibility". True in life and certainly true in franchising.

Entrepreneurs and ambitious business people have always been drawn to franchising. It has obvious appeal offering a readily available means to grow a business quickly using money and labour provided by others. To be great, a franchisor must take responsibility for each and every franchisee.

A 'set and forget' mentality or short term capital raising approach will always lead to disaster. Franchisees will quickly realise whether the franchisor has anything to offer and whether it can substantiate its pre-contractual claims. If not, the relationship will sour very quickly and as lawyers, we see the fall-out from this every day.

Occasionally we do see great franchisors. They have one common characteristic, they put their money where their mouth is and take responsibility for the entire business, including the franchised outlets. In doing so they make a very clear statement to their network which is about credibility and respect, the foundation of any strong relationship.

How many franchisors can say that they have never closed a store, or even more remarkable, that they never will close a store? They would need to be so supremely confident in their business model and their own ability to run stores that it simply wouldn't happen. They might exit a franchisee from the business but never the business itself.

How many franchisors can run a company store under their own management better than any franchisee can? They would need to be the subject matter expert, know the business better and really be able to 'walk the talk'.

How many franchisors have an investment in the franchise business? Not because they have to but because they want to and wouldn't have it any other way. They value being a business partner and have a real joint venture with their franchisee.

How many franchisors would loan money to a franchised business as start-up capital so they don't need bank funding? It would be an acceptable credit risk if they know the business will do well and repay the loan in full and on time.

How many franchisors would take care of all the business administration thereby freeing up the franchisee to work exclusively in the business? They would happily take on this labour intensive burden because they know that the growth of the business and consequently the network relies on the franchisee being hands on in the business and free to focus building the client base.

How many franchisors would sign a premises lease with a landlord? Not so they can pocket a lease incentive payment or charge a margin on occupancy costs but because they require control of optimum network locations for long term sustainability.

How many franchisors would exercise a right of first refusal to step in and buy a business in a franchise transfer where they weren't happy with the calibre of the proposed purchaser. They would see this as a small price to pay for the complete discretion on choice of new franchisee.

How many franchisors would not exercise their rights to divide territories looking for growth due to concern that it might adversely affect the revenue of existing outlets. They would see this as a short term gain which could result in long term pain and not worth the risk.

How many franchisors would decline the offer of supplier rebates and instead insist that franchisee buying price is reduced or take a rebate but put it into the marketing fund.

Believe it or not there are some franchisor's who can answer yes to all of these questions. They tend to be the market leaders. They have a level of credibility that they others can only dream of and their franchises sell themselves. They don't advertise for franchisees, they don't try and win awards, they just do what they do and do it well. They always take responsibility and they reap the rewards that franchising can offer, as do their franchisees.

For advice on these or any other franchising matter, Steven Crea can be contacted on 0411 777 695 or steven@crealegal.com.au.

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