



THE FRANCHISEE LIFE CYCLE

In the first of a new series, **Derrick Simpson**, Managing Partner of Franchise Resales Limited, takes us through the journey of a franchisee from inception to adolescence and finally adulthood.

Welcome to a new series of articles exploring the various elements and complexities that comprise a successful resales system and which, when fully implemented, will enable franchisors to operate and manage an efficient and functional exit programme for their franchisees.

Over the next five issues, I will be breaking down the resales process into its core constituent parts. This will include, the franchise lifecycle, planning a sale, recruiting for resales, creating a resales culture and franchisor sales. Each will be discussed to provide the opportunity for franchisors to decide how they wish to implement this vital element of their franchise system.

Starting in this issue I will be addressing one of the real basics of franchising; the franchisee life cycle.

Fleeing the nest

A wise man once said to me: "The only reason to start a business is to sell

it." While this is not necessarily totally true for all businesses, I believe the overall sentiment to be correct and this applies to our franchisees and our own businesses, as much as it does to independent non-franchised ones.

I have had thousands of conversations with franchisees over the years and the topic that was very rarely raised by them was the final goal, their game plan for exit. Some talked about handing their business on to their sons and daughters and yes, some have actually talked about an eventual sale of the business but, the vast majority have not. Nearly always the topic was raised by me. Later on in the series I will discuss creating a culture that accepts and plans for resales – but for now let's think about why this should be an issue for franchisors.

Franchisors are naturally mostly concerned with attracting new applicants to their brand and developing their market in the target territory by taking on new franchisees. This is where the majority of

advertising and recruitment activity lies and magazine publishers, exhibition organisers and recruitment brokers are all focused on achieving this aim. This is fine as a growth strategy but it is essential to keep an eye on the early sign-ups: the franchisees that have been in the longest, because it is these who will be seeking to sell and leave, and it is these who you need to support throughout the resale process.

Every franchisee will go through a life cycle and the length of this cycle will vary depending on the nature of the business, the returns that have been achieved and the personal circumstances of the franchisee. All will at some stage exhibit the various traits of the franchisee life cycle as they move from sign-up through launch, growth, maturity and comfort. The challenge for the franchisor therefore is to be able to address each of these stages and, through their support system, maintain the focus of the franchisee, so that they continue to develop their businesses and plan their ►

eventual exit from the system as the cycle comes to its natural conclusion.

The start of the journey

At inception when a franchisee has just signed up they are raring to go, the adrenalin is flowing and both franchisee and franchisor are looking forward to a mutually rewarding future together; the franchisee is reliant on the franchisor for advice, training and guidance. This is the juvenile stage in a franchisee's life and is a period that may only last a few weeks, in fairly simple business models, or may last several months with more complex systems. It is a time where the franchisor is giving training and guidance and the franchisee is taking and hopefully absorbing the knowledge. However, this can change as the franchisee gains in confidence.

Making tracks

During the adolescent stage, the franchisee feels it doesn't need the franchisor's help very much and possibly starts to exert a little of their independence; this is the first of the two danger zones in the life cycle. It is quite possible that the franchisees will start to resent the franchisor and their fee payments, as their confidence grows; but it is also quite likely that it is now they may 'hit the wall' and say they want to leave. They are at the bottom of the emotional learning curve that every franchisee goes through. Now the euphoria of the start up has worn off, the realities of franchise ownership have hit home and the hard work has begun. There is a real risk at this stage of a franchisee wishing to quit and given this fairly early point in the business life cycle, it is highly likely that it is going to be too early to achieve a successful sale, and so closure is a real risk here.

This is where having structured exit planning and providing information about the whole resale process from day one, is important as it means



a franchisee is aware of what their options are from the start.

The finishing line is in sight

Having passed the bottom of the emotional learning curve, franchisees settle into a routine and simply get on with the task in hand. They may need help from time to time, especially in relation to business planning and growth, but for the most part they are usually pleased with their decision to join and hopefully enjoy it. This adult stage is where the canny franchisor will alter the style of the relationship to be more consultative than demanding, because it is from the adult stage that the strength of the franchise develops. If you haven't done it earlier, this is the time that the franchisee should be encouraged to scope out their future plans and include discussion on their exit.

Warning signs

The second danger zone occurs in the senior stage or, as it is more often referred to, the comfort zone. Here franchisees really do know what they are doing, or think they do, and it is here where many franchisors see Management Service Fee (MSF) income plateau as franchises take their foot off the accelerator and the business coasts. At this stage in

a franchisee's development there is often a close, friendly relationship with the franchisor, especially if it is the person who recruited them in the first place and the businesses have developed to mutual benefit. So here the franchisor has a choice; either accept the status quo and take the view the current level of MSF is all they will get out of the territory or try to find ways to encourage further growth through incentives. Otherwise they should start to discuss the franchisee sale and exit from the system so they can put in a new, dynamic franchisee who will take the business onto new heights. It is not a sin for a franchisee to get comfortable and ease off, it's just not the best situation for the franchisor.

Benefit from an exit plan

All franchisees have a shelf life. The time period will depend on various factors and will vary from franchise system to franchise system as they travel along their life cycle. The franchisor needs the discernment to recognise that the end is in sight before the franchisee starts to plateau, therefore, a structured exit plan can be put into place to enable the franchisee to optimise their sales value and for the franchisor to move ahead with a new incumbent. ■