

Q As part of my due diligence process, how do I know if a franchisor has a good relationship with its franchisees?

A Franchise systems come in all shapes and sizes, and each has its unique elements. However, there are common aspects that underpin well-run franchise systems. A healthy franchisee-franchisor relationship is a good indicator of a healthy franchise system. Here are several elements that reflect a strong franchisee-franchisor relationship:

Participation in decision-making

Prudent and successful franchisors understand, place credence on, and implement strategies consistent with, the interdependent nature of the franchise business model. The often cited adage that “franchisors are only as successful as their franchisees” speaks to this point. While profit certainly motivates, influence over one’s destiny is an important motivating factor in business. Understandably the franchisor has to retain ultimate decision-making authority, however, franchisee input is critical to a well-functioning franchise system. Such input may take the form of franchisor advisory councils, franchisee associations, routine informal consultation and solicitation of feedback from franchisees on specific issues, etc. Ultimately, franchisee participation can lead to enhancement of both franchise system operations and the brand.

Communication

As in any business relationship, timely, two-way communication is key to a functional and profitable franchise system. Franchisors should have established channels for ongoing communication (ideally formalized in documented policies). There are many different mediums of communication, and franchisors should be intentional about using as many of them as possible and appropriate to foster stellar communication. Video/telephone conference calls can be effective for regular update sessions with franchisees.

Intranets are a great repository for operations manuals and other training materials – and make updating such documentation (and providing notification of such updates) easy. Successful franchisors will also provide opportunity for franchisees to make suggestions or ask questions, perhaps through an email account, chat room or call centre. Whatever the form or medium, franchisees should be in regular communication with their franchisor and vice versa.

Ongoing training and consultation

Business format franchise systems are based on a replicable business model. Franchisees purchase the rights from the franchisor to operate a business according to a set of proven systems and methods. The franchisees should get all the training necessary to establish and operate the business purchased from the franchisor. Beyond initial training, franchisees should have the option to receive ongoing training (albeit at the franchisee’s cost) from time to time for any number of reasons (e.g. poor financial results, or new product implementation). Reputable franchisors often mandate their field staff to assist franchisees through consultation and additional training on field visits (as opposed to solely monitoring franchisee compliance).

Vision, strategy and commitment

One of the main roles of the franchisor is to provide franchisees with a clear vision and robust strategy for the brand and its products or services. Without a clear vision, it is difficult to foster uniformity across the system, changes in the market place become extremely challenging, and franchisee morale and sustained success is at risk. Great franchisors maintain a demonstrable commitment to seeing the system and the brand (together with the products and services) develop and improve.

Franchisors that play a leadership role in this way facilitate a strong franchisee-franchisor relationship.

Comradery

Successful franchise systems depend on the franchisor and its franchisees effectively working together on various fronts. Marketing initiatives, local and national, are one area where franchisees and franchisors pool resources for the greater good of the franchise system. Franchisors can motivate franchisees with incentive programs for successful local marketing and can build trust through responsible and transparent deployment of national marketing fund monies. Another way of fostering solidarity within the system is through regular scheduled conventions (or other activities that bring franchisees together), which build comradery among franchisees as they share experiences, ideas and information. Well-run conventions that combine educational sessions with effective communication of vision and strategy can also build a stronger connection between the franchisees and their franchisor.

The above represents but a sample of the many elements that contribute to a successful franchisor-franchisee relationship. Overall, franchisors and franchisees will be most successful when both appreciate the interdependent nature of their relationship, and each understands and plays their respective roles competently in a spirit of collaboration. ✦



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