

FRANCHISING IN A BAD ECONOMY? YOU BET!

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If you own a business you have two options in the current economy. One is to hunker down and wait it out. The other is to look for opportunities. Tempting as option one might be, by crawling into a hole you run the risk of being covered up—permanently.

But even if you're an aggressive business person it's not always easy to find a route through the maze of stagnant sales and plummeting stock markets. My suggestion is to start with a frank look at your assets. The U.S. Census Bureau reports that only half of all new businesses that employ people are still operating five years later. During recessions, even fewer businesses are likely to survive. The mere fact you're still in business should be a huge confidence builder. If you're actually making a profit, you're way ahead of the game.

So what's the best way to maintain momentum while taking advantage of any opportunities that exist in the current economy? If you are in any way involved in the distribution of goods and services (and if you think about it that describes almost any business) you should consider franchising. In today's economy, franchising can accomplish two things. It can let you start growing in a way that is both economical and efficient. And it can position you for rapid growth when the economy gets better.

What makes franchising economical? One thing is the lack of capital needed. Most businesses can start a franchise program for less money than it takes to open a new unit. That means you probably won't need to borrow much money, if any, to get to the point where you can sell franchises. Franchising also allows you to avoid venture capitalists, who invariably want a piece of your business in exchange for their money--if they are interested at all. Franchisees, of course, pay all the costs of starting their business, so once you're a qualified franchisor most of your costs are related to finding franchisees.

Another advantage of franchising now is the pool of prospective franchisees you can choose from. In these days of downsizing and layoffs many people with management experience are looking for new careers. Some have substantial savings and home equity as well as high credit ratings. Business ownership can look very attractive to a person who has just lost a job.

The bad economy can favor franchising in other ways as well. If your business requires shopping center locations, your franchisees will have plenty to choose from in this economy—and at favorable terms. Many eager landlords are offering rent-free deals these days.

Franchising also offers a way to get a leg up on competitors. Businesses that expand through company owned units are having trouble supporting the ones they have, much less creating new ones. Starbucks is closing 700 stores. Starbucks must pay the manager's salary and have a profit left over. A franchisor has franchisees who work sixty hours a week and are delighted with a manager's salary even if profits are low or nonexistent.

Best of all, as a franchisor you can grow at your own pace. Two or three new franchises a month are probably as much as you can handle anyway at first. Later on, when the economy improves, you'll be positioned for rapid expansion, if that's your goal.

In the Serengeti, lions always attack the weakest of their prey. This is the time when franchising can be used to move into markets that are abandoned or neglected by companies totally reliant upon capital generated by their businesses, by borrowing, or by investors. As a franchisor you will have a compelling story to tell prospective investor-franchisees. They'll own their own business without the risk of starting something totally new. They'll get a proven operating system. They'll get training in every aspect of the business. They'll have ongoing assistance to help them over the rough spots. They'll be independent while still being members of a team.

So don't hunker down. Don't crawl into the fox hole. Now is the time to attack the fort while the walls are crumbling. Now is the time to sell franchises and help people get started. Show prospective buyers that with your help they can prosper in this challenging market.