Driving Franchise Growth in this Age of Disruption - Understanding the Changing Landscape of Franchise Development and Today’s Strategies for Success

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## 1.Introduction

Franchising is all about looking into the crystal ball, to some extent, and make the best out of what you see there, floating in the magical waters of business, relationships, marketing, leads and everything else. It used to be easier back in the days, but technology and the modern era has made everything not necessarily harder, but much more challenging.

Franchising is all about strategy. It’s about beginning with the end in mind, the whole franchise development process, and so on. Nowadays, terms like lead generation and marketing are also common amongst franchisers. But also, it’s about the talent that people put into it, the stuff they bring with them from home. The things that make them unique, and will make their business impressive and different as well.

Then there's disruption. The world is changing. Not just out in the economy, but also into our businesses. Take one technological advance, like autonomic vehicles. That one change alone is going to have ripple effects across the economy. You’ve got 40.000 people a year that die in car accidents. All of a sudden, that stops. Hundreds of thousands going into hospitals. That’s also going to change the way hospitals work. Also, it’s going to wipe out or disrupt businesses like insurance, housing, cities, and so on.

4 million people are involved as professional drivers, taxi drivers, transport drivers, etc. and their lives are all going to be disrupted by one single technological advance. But to get a broader picture, all we have to do is look at our own businesses, in our own franchises.

If we take a look at Google’s or Amazon’s home services, how is that going to affect our brands? There’s research out there that shows that we believe in an Amazon review as much or even more as we do in a personal referral from a friend or family. If you find a painter on Amazon’s home services, and Amazon guarantees for that painter, you just get rid of the middleman and deal with the painter directly.

But how is that going to affect brands? What is a brand anymore? What is the value of it? These are the discussions that are now going on all around the business world. And yes, they all affect our businesses and the economy. How? By changing things, constantly.

Our main question is about franchises, more specifically, how is disruption affecting the way we find and award franchises, and grow our system? There are many different reasons why you should be interested in the disruption, be it economical, growth or impact-related. But one thing to always keep in mind is selling a franchise is becoming more and more expensive. Over time, the quality of leads is continuously going down, while the cost of leads is going straight up nowadays. The brokers are charging more, they are ramping up their fees. But they are not really the ones to blame. The ones to blame are mammoths like Google, which are sucking up all the value, all the oxygen in the room. Everything that they can, they will take. They keep ramping up the costs because everything originates in internet traffic.

These publishers are selling the traffic, turning the process into an auction. The more of us that are feeding on that traffic, the more their prices go up, and the harder it is for businesses to keep up a good number of leads and actually make a sale.

The world has changed, and if you are expecting a profit from your franchise sales, that might be difficult to do. You might want to ask yourself just how ready are you to properly capitalize your business? It takes money to do that. It can take a million dollars or even more. Are you ready to put that money and effort into it?

## 2.The ABC’S of Franchising

In franchising, sometimes all we have to do is to go slow, to go fast. To go forward. There are what we call the ABC’s of franchise success. There are three key things you want to think about when starting to grow your system.

**A) Franchisee Satisfaction:** this is the number one drive of franchise growth. The absolute most important thing you should keep in mind while developing your franchise. This is what will ultimately give you the validation, referrals, and the money;

**B: Franchisee Profitability:** this is the number one driver of the first one. In order for a franchisee to be satisfied, he has to be profitable. You can have profitable franchises who are unhappy. But you can’t have unprofitable franchisees who are happy. There’s a Honeymoon period, as we call it, but ultimately they’ll want to be profitable, and it’s only natural;

**C: Relationships and Trust:** franchising is a relationship and trust-based system, so having both of them is like a glue that holds everything together. People from all over the spectrum, Wall Street, private equity, from Silicon Valley, and they just don’t get it. They don’t realise that that whole relational piece is there.

Let’s say you are running Intel, and having a line that produces microchips. You find an error in the manufacturing process of the microprocessor. Are you just going to keep cranking the line? No, you’re going to stop it, rebuild the design and then start producing chips again. The same is available to franchising, as we are too selling a system that has suboptimal unit economics, so it actually makes sense to slow down a little bit, get everything tight, and then accelerate.

## 3. Disruption

For the current paper that you’re reading, we’ve interviewed over 20 CEO’s, VP franchise development officers, and so on. Picking their brains about what they are seeing as going on is at the base of the paper you’re now reading. What’s changing? Where is the future going to be taking us?

Competition is increasing. Costs are getting higher. Lead generation is falling. You go on a website and sign up for something that is free, only to have your phone blow up and glow like a Christmas tree all night long because your lead was sold to 8 different franchisors, and they are all calling. It’s like seagulls fighting over a french fry.

*Research firm FRANdata reports, as quoted by the Franchise Performance group, there are about 3,800 franchise brands in the United States, at or near a record high. On top of that, in any given year 250 to 350 new brands throw their hat into the ring without significantly increasing the available market. FPG and FRANdata estimate that in any given year, only 13,000-20,000 franchise candidates invest in new franchises. That’s roughly 4 to 5 new franchisees for each franchisor. If the average franchisor needs 50 to 100 operating units and territories to sustain operations, the typical franchisor ramp-up is currently 10 to 20 years.*

### Speed!

The lead generation landscape has changed. Back in the days, when we got a lead, there was one person talking to another, and nothing more. That’s not the case anymore. Response time is critical now. Harvard and MIT researchers show that there’s a critical breaking point of over 30 minutes to respond to someone. If it takes more than that, they are likely never going to come back with a response to it.

5 minutes is the critical threshold of contact. This applies to all of us. We go online and search for a tutor, a painter or a plumber. If you don’t get a response within 30 minutes, you are one click away from the competition of those people. We are all just one click away from our competition. Speed to lead and response time is really critical. It’s not the only thing to think about though, but it’s definitely very important. Getting to people quickly is important.

It’s also important how you manage your marketing. It’s not about writing an ad anymore. It’s about telling a story. The terms “inbound marketing”, “content marketing” or “content is key” are all over the business world right now. When you write the content on your own website, are you writing it as a copywriter, or as a journalist? Are you telling a story? Are you engaging people, with videos, and testimonies? Because it needs to be rich in content.

The lead tree is not giving so much fruit as it used to. Or not nearly as good a fruit anymore. We need to actually go beyond our limits and get those fruits, as in, those people, clients and so on. Some of the more innovating franchisors simply think as recruiters. They look at where are their best franchises coming from. They go on LinkedIn, just like headhunters, and look for people exactly like the best ones they know.

The buyer’s journey has changed. Today, 57% of the whole buyer’s journey is complete by the time they make the first contact with you, the franchisor. When you finally talk to them, they know more about you, your competition and even have spoken to some of your franchisees and of course read your reviews online.

*The 2015 U.S. Census, which is the latest information available, reported 414,000 new business starts, the lowest total in 40 years. This represents a steep 10% decline from 2014 data, which showed slightly over 450,000 new business starts. To put this in perspective, over the previous 40 years, U.S. Census measured new business starts to hover between 500,000-600,000 each year, as quoted by the Franchise Performance Group on their blog.*

People in franchising can’t work banking hours or the typical 9-to-5. Take a look at when people are really engaging with you. Take a look at your web traffic. People can have the same engagement on a Saturday night, or a Sunday, as they do on a Tuesday. We’re living in a world that is busier and faster than ever, so it’s only normal for these things to come along with that. Put some people to work over hours, respond to emails or calls and the results will be impressive, to say the least.