

## Franchisee Business Plans Revisited

### *Business planning done right yields value far beyond finance applications*

The mere mention of “*business planning*” can be enough to turn off an entire auditorium full of franchisees, not to mention any franchisor representatives that are present. New, first time franchisees that have never developed a business plan before tend to perceive planning as bewildering, challenging and time consuming. Franchisees that desire third party financing often see business planning as little more than another lender requirement in the loan application process. Lenders are often viewed as filing business plans primarily to mitigate liability in the event of borrower defaults. Franchisors prefer to steer clear of involvement with franchisee business plans, not wanting to make earnings claims outside of the Franchise Disclosure Document. Franchisor leaders are reluctant to expose too much of the inner workings of the businesses until franchisees make the commitment of attending pre-opening training classes. Franchisors that do provide assistance with business planning attempt to make the process easy to a fault, thus depriving their franchisees of a valuable learning experience. As valid as these points may be, such limited rational fails to embrace the golden rules of franchising.

Rule #1	All franchise systems are first and foremost sales organizations.
Rule #2	Every component of a franchise network must sell all the time.
Rule #3	Business plans are no exception to Rule #2.

Business planning does not have to be approached with dread or otherwise treated as an as a necessary evil by franchisees or their franchisors. With a properly designed hands-on program in place, franchisee business planning can be an enjoyable experience and significantly more palatable to franchisees than sitting through weeks of corporate training classes with no frame of reference. In addition, franchisees that assume responsibility to perform research for, and development of, their own unique business plans will arrive at the franchisor’s training class better prepared to participate and learn. Franchisor training and support staff that review franchisees’ resulting business plans, will likewise be better prepared to instruct franchisees.

Best practices suggest that business planning can only become a catalyst for improvement when intricately interwoven into the culture of the franchise network. Franchisors’ positive contribution to franchisee business planning should be as much about helping franchisees to become knowledgeable of, and deliver on, the right things, as it is about avoiding common pitfalls. Business planning programs and guidelines that are thoughtfully designed and disclosed as an integral part of the franchise network, and consistently marketed and applied, stand the greatest chance of helping franchisees and their franchisors to achieve the success they desire.

If a formal franchisee business planning program is not yet an institutionalized part of your franchise network, or if planning assistance more closely resembles a fill in the blanks template composed of marketing rhetoric and a financial proforma, or is outsourced to third party drafting services or commercial software providers, now is the time to reevaluate proper business planning. Stakeholders, especially in small franchised businesses, prefer and rightfully expect franchisees to research and develop their own plans, and that such plans are reasonably accurate.

### **Benefits of franchisee business planning done right:**

#### **Positively differentiate your franchise offering from competitor offerings regardless of industry.**

The general public tends to view franchising as an industry unto itself rather than a method employed by many industries and companies for distributing brands, products and services using entrepreneurial capital and labor. This perception is fostered by the popular press and by franchise marketers pitching franchise options representing multiple industries befitting franchise prospects’ personalities, backgrounds and finances. Franchisees today are likely to contemplate franchise investment in more than one industry. Franchisors thus compete for unit sales against franchise offerings within their own industry as well as unrelated, industries, thereby increasing competition exponentially. Franchisors that institutionalize franchisee business planning can positively differentiate their offering in a crowded franchise marketplace.

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**Get to know new franchisees in a timely and quality manner while aligning expectations.**

A key to successful personal and professional relationships is the ability to say hello and goodbye gracefully. Franchise relationships start off one sided, with an initial knowledge transfer flowing from franchisor to the franchisee. Potential success is not immediately revealed and usually not confirmed until well into the first year of operation. First time franchisees enter the relationship with expectations about the business as well as common misperceptions regarding investment, level of involvement, time to breakeven and profitability, and the number of units required to reach a desired return on investment. Incorrect assumptions and wishful thinking can persist well beyond Discovery Day and Franchise Agreement signing if not checked early. Hands-on business planning that promotes interaction with fellow franchisees, use of licensed professional franchise and lease attorneys and CPA's, with strong emphasis on documentation, can help align franchisee expectations and enhance franchisor and stakeholder understanding of franchisees and their target markets.

**Enable new franchisees' understanding of the business, visualization of its potential, and articulation of both, to spouse, partners, managers, investors, lenders, the franchisor and other stakeholders.**

Many adults possess the ability to verbally respond to challenging questions and situations in a convincing manner. Significantly fewer adults are as adroit at delivering such encouraging responses in writing. Accordingly, there is a great difference between prospective and first time franchisees that balk at required business planning, those that minimally comply, and those that aggressively exploit planning. Franchisors that institutionalize business planning programs help jump start franchisees on the process of becoming resident experts of the franchise, their business behind the franchise, and their local target market. Franchisor and stakeholder review of business plans offers an opportunity for dialogue and feedback in advance of investment activities and pre-opening training. Business planning done right enhances franchisee understanding and confidence, assists in securing equity capitalization and/or competitive debt financing, promotes buy in and understanding among stakeholders and key employees, and can yield greater uniformity of franchisor support. The goal of business planning is to empower stronger, more self reliant franchisees and enhance the value of the franchise network. A refined business planning program can thus become an additional support system, which is less affected by variations in franchisor staff proficiency and/or turnover.

**Encourage new franchisees' open communication and formation of positive, supportive relationships among their fellow franchisees and the franchisor.**

A benefit of franchised over independent businesses is belonging to a closed system offering confidential networking with limited threat of competition. Franchisees relying in part upon information provided by established franchisees, holds promise of perpetuating the favor and the practice as they are approached by future first time franchisees for assistance. Over time an institutionalized franchise business planning program promises to yield a superior start for new franchisees by balancing reliance on the franchisor with reliance upon a willing and participative network. The adage "*you get what you inspect, not what you expect*" holds true for franchisee business planning. Best practices call for introducing the concept and requirement of business planning into the sales process from the first contact with prospective franchisees, with consistent reinforcement in the Franchise Disclosure Document and at Discovery Day. Franchisors should establish a routine practice of reviewing updated franchisee business plans on each franchisee anniversary, and in advance of, and as a condition to, approving any future financing, expansions, acquisitions, mergers, down sizing or sales. A robust, yet practical franchise business planning program, consistently applied, can build and strengthen relationships among fellow franchisees and franchisor personnel.

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#### **Lead new franchisees beyond self employment to entrepreneurship.**

Franchising provides a pre-established brand name and operating system replete with franchisor rules of thumb to quickly get franchisees up and running. From franchise agreement signing to unit opening, franchisors transfer knowledge via standardized manuals and training. The goal for new franchisees is to timely open for business and begin generating revenues to help keep post opening working capital investment to a minimum. As franchisee mature they face the choice of remaining self employed or taking their business to the next level as an “intrepreneur” (an entrepreneur with a franchise). Step one is learning to work each position. Step two is preparing to run the business through unit managers and sales staff, which are traditionally difficult positions for small business owners to adequately maintain. Franchisees that master step two must internally replicate the initial role the franchisor took to teach them how to operate the business. Additionally, franchisees must account for the competitive, economic, demographic and geographic variations within their target market, as they bring unit management and sales staff on board and up to speed. The hands on process of developing a comprehensive business plan enhances new franchisees’ understanding of the reasons behind franchisor systems and rules of thumb, and better equips them to repeatedly guide key employees through excerpts of the planning and training process. Franchisees proficient at operating their business through key employees open the door to multi unit development, which is where the opportunity to generate real money in franchising lies.

#### **Steps Franchisors should take to implementing an effective business planning program:**

1. Develop proprietary business planning guidelines collaboratively involving interdepartmental franchisor leadership and line staff, and franchisee owner group representatives.
2. Disclose business planning program and guidelines in the Franchise Disclosure Document and throughout the entire presale process. Set the expectation among franchisees that business plans should be developed according to your established guidelines, in part by interviewing existing franchisees, and then returning the favor by openly granting interviews to new franchisees in the future.
3. Disclose the primary purposes of business planning as; i) timely increasing franchisees’ knowledge and understanding of their local businesses and target markets, ii) encouraging supportive franchisee relationships and strengthening the franchise system, and iii) enhancing stakeholder understanding of the franchise offering, and individual franchisees’ local businesses, target markets and future potential.
4. Disclose franchisor’s required review of franchisees’ resulting business plans in order to; i) answer franchisees’ questions related to the business, franchise offering, systems, materials, marketing, training, support, and proprietary Business Planning Guidelines, (ii) provide feedback to franchisees regarding the relative completeness of their plans, iii) enhance franchisor’s corporate leadership and/or line staff understanding of franchisee’s business, financial goals and target market, and iv) compare franchisee’s future operational and financial performance results against their plan.
5. Disclose that franchisees’ resulting business plans are their own, subject to confidentiality requirements, and the franchisor neither requires nor offers its approval of, or for, submitted plans.
6. Disclose requirement for commencing written business plan development on the day of franchise agreement execution, with timely and substantial completion prior to franchisee investment and/or financing activities, and in advance of franchisee entering into any long term third party contractual obligations for furniture, fixtures, equipment, facilities, vehicles, and inventory or other commitments.
7. Provide your franchisees with a link to <a href="http://www.TipTopDocs.com">www.TipTopDocs.com</a> where they can purchase a comprehensive Franchisee Business Planning Guidelines package and other valuable resources.

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### About the Author:

Bob Snelling is president and founder of Honor Capital Group, LLC a small business consultancy and finance intermediary, and the author of Tip Top Docs brand of professional business documents.



Bob's diverse business experience spans multiple industries dealing with products, services and people. Serving as an employee in various positions from warehouse to boardroom Bob has directly reported to no less than five extraordinarily different company presidents. As a business owner making decisions, setting budgets, and meeting payrolls for up to thousands of employees, Bob has known first hand what it is to maintain legal, operational and P & L responsibility. Performing in the roles of senior level executive, CEO, board director and major shareholder of Snelling and Snelling, Inc., a national, and for many years international company with hundreds of franchised and corporate units, Bob has by necessity perfected leadership skills that are tolerant and respectful of widely divergent perspectives.

A unique background with progressive levels of operational, managerial and financial responsibility has proved invaluable preparation for Bob's current role as business advisor and finance intermediary. Guided by ethical behavior, attention to detail, and a regimen of planning, collaboration and teamwork, Bob's innovative yet practical solutions consistently deliver return on investment and stand the test of time. Decades invested in the identification and implementation of sustainable best practices uniquely qualifies Bob to author relevant topics that today's franchised and independent business leaders can immediately benefit from and put into action.

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