

Franchising : a rapid way to be successful entrepreneur



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Franchising is becoming a popular form of doing business in Thailand. Originally, it was introduced into Thailand by foreign firms like McDonald's Shell etc. Nowadays, many Thai firms also adapt to this system, for instance, Central Minimart and Five Stars Roasted Chicken. Franchising is a vital mean and almost fail-proof for franchisees.

"How do we find a good franchisor?" This is the question always comes into mind of prospective franchisee. Getting the right information is the very first step. A wise woman (or was

it a man?) once said : " knowledge is power". In the hyper-competitive franchise market, this adage manifests itself in the way the franchisors covet information about their franchise - even, at times, from their own franchisees.

In smaller, neophyte franchises, franchisors are usually a little more relaxed in divulging information and documentation. However, once a franchise has achieved a certain level of maturity or market share, the doors can close so tightly that a prospective franchisee may in fact take years to obtain

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all of the information he or she requires in connection with the purchase of a franchise.

For instance, so many people are lined-up to buy McDonald's restaurant franchises these days, that McDonald's can afford to put prospective franchisees on a waiting list. Once the personal and financial background of the applicants is varified, the applicant is invited to attend training, usually on a part-time basis, at his or her own expense. Such training can take up to a couple of years to complete. By that time, McDonald's has established whether or not the individual has what it takes to be one of their franchisees. Once the person meets the required specifications, only then do the formal negotiations commence. However, in this as in many other areas, McDonald's is the exception and not the rule.

Agreement : Many franchisors will not provide even the most basic documentation to an applicant until such time as a deposit or non-disclosure agreement is signed by the the applicant. Basically, in signing the agreement, the applicant agrees not to disclose any of the information relating to the franchise system that he or she might obtain in the course of negotiating a purchase. In the further attempt to deter the idly curious, or would be imitators, serious franchisors will also require the payment of an initial deposit, ranging from B 20 - 300 thousand upon execution of the non-disclosure agreement and before handing over the information.

It is at this point that any would-be purchaser should consider seriously whether to proceed. Deposit money, once paid, becomes difficult or impossible to get back. To protect yourself, you should have already completed a good deal of homework before paying over the money: check with existing franchisees (especially the "troublemakers"); check with the Ministry of Commerce and get verbal answers from the franchisor regarding the financial nuts and bolts of the agreement.

Warning bells should be going off in your head prior to signing any deposit or non-disclosure agreement. Remember, the agreement was drafted entirely one-sided. If you are going to invest B 2 - 20 million in a franchise, you should consider spending a little money upfront to consult a professional about the implications of any documenta-

tion before signing. And you should resist the temptation to say, "I'll take it in for review after I sign it". By then, you may have severely restricted your maneuver-ability in negotiating the remainder of the deal.

Shortgun : By way of example, a common inclusion in deposit or non-disclosure agreements is that the formal franchise agreement must be executed within a certain number of days following signing of the deposit agreement. Depending on the ethics of the franchisor, this time limit can be used as a shortgun to force a hasty signed of the balance of the franchise documentation. If not signed within the time limit, the deposit is usually lost.

To increase the probability that you will get your deposit money back if at any time you become dissatisfied, you should request that the deposit cheque held by your lawyer in trust until the deal is finalized. Another way to protect your money is to provide a postdated cheque ; if your review of the documentation has led you to an unfavorable conclusion, you can stop payment on the cheque before it is cashed. You may still have a fight on your hands if the franchisor claims it is still owed the money, but at least the franchisor will be chasing you, rather than the other way round.

Unified units: A successful franchise is more than the sum of its parts, and anyone given the simple ingredients on paper as to what the franchise consists of probably could not duplicate it. The single most indispensable element of a successful franchise is the magic that binds a group of franchisees together with their franchisor into a unified, highly motivated unit. (A certain amount of luck also helps.)

Prized papers : In terms of the most highly prized "papers" of a franchisor, two are singled out for particular attention : the franchise agreement and the operations manual. The value of an operations manual to a young franchise, aside from the obvious - which is that it sets out an A - Z approach on the how to run the franchise - is that it gives an appearance of maturity and sophistication to a franchise. Many new frachises, who attract applicants with no previous experience in their line of business, use the promise of a comprehensive operations manual as a central selling feature.

The operations manual, if well written, soon be dirtied and dog-eared from use. As a start-up document, it provides information the new franchisee should have to prepare for the operating of the business. Inside should be the "meat and potatoes" details on recipes, opening hours, equipment maintenance, how to go about marketing, advertising, and setting up accounting systems and record keeping. The manual is also a good place to set out a history of the franchise, and the importance of playing as a team member and maintaining consistently high standards.

A franchise manual must be treated as a constantly evolving document. Changes in laws, technology, customer preferences, and input from franchisees should be reflected in updates, and the sooner the better. Peter the Great is said to have commented "that which ceases to grow soon begins to rot"; be aware of the franchise that is not constantly looking for ways to expand and improve.

Protection : In order to protect their investments

and secrets, a franchisor will often provide only one manual, and obtain a written acknowledgement that the manual is strictly on loan and should be returned on demand, or upon termination of the franchise. As mentioned above, an operations manual should be a loose-leaf document. Pages should be serializes to permit the insertion of replacement pages. The cautious franchisor will also require that the old or replaced pages be returned to head office.

If the franchise does not have an operations manual, the most likely consequence will be additional costs of operation. One of the most damaging repercussions is that franchisees will often be poorly informed, since the absence of an operations manual is often accompanied by the absence of a flow of written information from head office. Verbal instructions are just not as good as written ones: people can learn at their own speed with written instructions, and refer back from time to time to infrequently used procedures. ■□



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