Growing the Franchise

Many CEOs have operated their franchise business for a while and now may be ready to think about expanding. There are two basic ways to grow your franchise:

1. Purchasing another territory.
2. Purchase more territory or locations directly.

You are the franchisee. You have supported this system with your royalties and initial purchase price and it now will be one of your biggest assets as you decide to grow your business.

Since the systems for the franchise are already in place, your biggest concerns as you build and grow your business are going to be: finances (having sufficient capital and resources), location (for many businesses, location is critical), employee training, and culture transition. I will share some ideas as you plan this next stage of your business.

Employee Training and Culture Transition is a key concern. You have worked the business in the first franchise location, so those employees have translated your style into their work habits. They have seen by example how to handle a customer. To expand, you are required to hire people who will accept your style and be able to train other employees in that culture without your presence. Turnover of employees is expensive and time-consuming. Finding the right managers who can train and translate your wishes should be high on your priority list before taking on that second location.

Also, consider how your role will and should change. Will you still manage the first location with a manager in the second or will you try to manage both? Trying to be in two places at once is difficult if not impossible. Will you put a manager in each location and personally tackle marketing and public relations? Can you relinquish control? It may be harder to do than you think.

Planning for growth is just as important as planning was for starting up. Be sure you exercise due diligence and investigate the following before you decide to expand:

✔️ If you consider buying another existing franchise, find out why it is for sale. If it’s because the franchise is not successful, you need to figure out why. Lack of motivation or self-discipline, poor territory, inability to keep employees—there could and will be many reasons. You have the advantage of knowing the system so it is easier to differentiate perception from reality.
✓ **Protect yourself from liabilities.** You may want to do a net asset sale to protect yourself from liabilities connected to the present owner with an indemnification clause. Even though s/he may have given you several reasons they want to sell, you may never know the true reason, so make sure to protect yourself from any outstanding legal actions.

✓ **Check financial statements.** It is mandatory to check out the owners financial statements for 5 years or as long as they have been in business. What has the growth pattern been over this time period? Look at the sales tax returns and the income tax returns. It is easier to determine accounts payable, but equally important, in some businesses, is the accounts receivable. Often last minute games are played with receivables.

✓ **Can you assume an existing lease?** It is important to check with the landlord if you are taking on an existing location. Many resources are available online to define due diligence requirements for the purchase of a business. Read one from SCORE.

✓ **Right of first refusal.** In many franchise agreements, the franchisor has the right of first refusal. That means if the existing franchisee has someone who is willing to purchase the business, the franchisor has first right to come in and make the purchase at that price.

In many ways, growing a franchise is easier than growing an independent business. Take advantage of the network of other franchisees in the system. You all share a common goal and work within a given framework. Call them for marketing, PR and management tips.

Multiple unit management is a very different challenge, but it comes with many rewards. Make it the fun that it really can be. Remember that SCORE has experienced mentors to help. SCORE counseling is always free and confidential.

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