



Analyzing Franchise Growth

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There are many factors to consider when selecting the right franchise opportunity. Not only do you want the franchise to be a good fit for you – you also want to work with a franchisor that’s going to be around for a long time.

How can you determine if a franchise system is healthy? In the franchise book, *The Educated Franchisee* we believe in sharing knowledge. A little franchise education could be helpful in this area.

One important measure is the system’s rate of franchise growth.

Too Fast: Rapid franchise growth may seem like a good thing at first but it is possible for a system to grow too fast. It is important to make sure the franchisor has the people and systems in place to thoroughly handle your training and on-going support. For example, if a system of 50 franchisees adds 30 additional franchisees in a year, the rate of franchise growth may be too fast.

Too Slow: If franchise growth is stagnant there could also be a problem. Why isn’t the franchise attracting new people? Perhaps there are problems with the business model – problems that make it difficult for existing franchisees to succeed. When potential franchisees make ‘validation calls’ they may hear about problems and decide to look elsewhere for a business. Or perhaps the franchisor doesn’t have the right staff and has to limit franchise growth. Either way, a lack of new franchisees may be a sign of an unhealthy franchise system.

Just Right: Steady franchise growth over time is an indicator of good management and a healthy system. One way to gauge steady franchise growth is to determine the rate at which the franchise grew each year both in absolute and percent terms. To find this data for the past three years you can



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look in the Franchise Disclosure Document under Item 20 – the List of Outlets. All the data you need regarding franchise growth will be there for you in a clear, easy to understand format.

Rule of Thumb for Most Franchises

As a rule of thumb for medium-sized franchisors, the number of franchisees added each year should be between 10% and 35% of the total number of franchisees. For example, a company with 100 franchisees should have the infrastructure to add up to 35 new franchisees in the coming year.

Rule of Thumb for Large and Small Franchises

This formula doesn't work for very large or very small companies, however, so when looking at behemoth or boutique franchise systems consider the ratio of operational support personnel compared to new franchisees. A ratio of one support person for every 10-20 new franchisees tells you that new franchisees are probably getting the preparation and support they need to succeed.

Talk to Franchisees

But don't assume! It is critical that you talk to existing franchisees. Find out about the training they received initially and what they receive in terms of on-going support. Do they find the staff to be knowledgeable? Responsive? Does the franchisee feel comfortable calling on them for help? Pay particular attention to the information you glean from new franchisees. Your experience will most closely reflect theirs.

Meet the Support Staff

Typically, a serious franchise investigation ends with a visit to the franchisor's headquarters to get final questions answered and meet the staff face-to-face. Spend extra time with the support staff. Make sure you are comfortable with their experience, competence, style, and ability to communicate, because you will need to work well with them and trust their advice on an on-going basis.



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There are many things to think about when researching a franchise business that will meet your needs, but it doesn't matter how much you like the business if the franchisor isn't viable. Gather the franchise information you need and be certain the system you choose is growing and has a good number of satisfied franchisees. Franchise growth is a key part of your due diligence. Only a healthy franchise opportunity can support your long-term growth and success.

Sign up for our FREE monthly newsletter at - <http://educatedfranchisee.com/signup.aspx>

The Educated Franchisee is dedicated to franchise education through the sharing of franchise information. Our objective is –

'To create educated franchise buyers that have clearly defined objectives and are able to recognize the right, or wrong, franchise when they see it. An educated franchise buyer will move into the franchisee role with their expectations properly set and will have a heightened potential for success within the franchise system creating a win/win for all involved.

To get more franchise information about how to stack the deck in your favor –

Visit our website at www.educatedfranchisee.com or

Purchase our franchise book – [The Educated Franchisee](#) by Rick Bisio, Franchise Consultant or Contact author directly at rbisio@educatedfranchisee.com or call 941 778 4660.

