Franchising has created thousands of success stories but the path to wealth is not always paved with gold, as franchise advisor Jason Gehrke explains.

IN FOR THE LONG HAUL

For a young entrepreneur starting out on a promising career in franchising, there can be few pills harder to swallow than having your savings disappear and an entire business crumble under your feet.

That was the fate that befell Jason Gehrke when he became a start-up shareholder and director of a real estate franchise operation.

Mr Gehrke, in his early 20s at the time, says luckily he was young enough to start again, but knows first-hand how punishing a franchise failure can be.

'It's a real kick in the guts. The personal cost is pretty substantial and when your confidence is shaken like that it's very hard to recover.'

Building on that experience from the early 90s he undertook to help others avoid a similar fate. After taking on several franchisee and franchisor roles, which led to him being named a Franchisor of the Year in 2004, he established the Franchise Advisory Centre, to offer advice to those starting out in the sector.

Mr Gehrke, who regularly presents seminars for prospective franchisors and franchisees, sees a trend in many of the mistakes that land both groups in hot water.

'[Compliance with] the regulation is not onerous, but it is essential in that it is part of ensuring that the business is running smoothly. Franchising is not always chosen as a proactive strategy, it's often chosen as a reactive strategy as a result of unsolicited requests from people who say, "This is so good I want to get involved".'

However, many businesses soliciting expressions of interest may have a number of possible expansion options that they have not considered.

'Franchising is a strategy that should be on the map for many small businesses that have a unique concept, but it's got to be highly profitable, and the owners must be totally committed to it—it should be part of their long-term plan.'

> Proving the concept is an essential prerequisite to on-selling the franchise.

'It has to be profitable not just for the existing person, but in additional outlets and territories it must generate 20 to 30 per cent in addition to a good working wage for the owner, otherwise you might as well not bother.'

Gehrke says that in the first three years of franchising a business it is not uncommon for franchisees to make more money than their franchisor. A franchisor has to reinvest in the business, and although it can be frustrating to see franchisees doing well, it demonstrates the system is working.

Failing to enforce compliance with the system can also be a common mistake that leads to difficulties.

'Everyone has an agreement, but it is possible that franchisors may make exceptions or tolerate some behaviour they shouldn't in terms of the franchise agreement. You can have the best franchise system in the world but it can still go to rack and ruin if you are not prepared to enforce it.'

Choosing a business consultant is an important step, but must also be approached with caution. A consultant doesn't always bear the long-term responsibility of finding the best candidates or making sure they succeed as franchisees.

The more franchisees who are taken on, the more responsibility falls to the franchisor to ensure product innovation, marketing and training are all kept up-to-date and that market pressures do not threaten the business.

Of course committing to franchising goes beyond market analysis. For many, the decision will be based on emotion and the desire to be their own boss. Once all other factors are considered and the business is well-grounded, success can come down to a question of commitment.

'Franchising can make you wealthy, but there are no guarantees it will. It will test you emotionally, it will certainly test you financially, and it may test you physically. If you go into it prepared for that, it can be an enormously satisfying way to work.'

Jason Gehrke's tips for prospective franchisors

Ensure the concept is sustainable. Some businesses, like fashions, may only have short life expectancies. If business can't change rapidly to accommodate changing consumer tastes, they may not have a bright long-term future.

Ensure minor regulatory changes won't shut down the business overnight, as happened to a CD library business when copyright laws changed.

The franchisor must be totally committed to the business. You will embark on a long, testing journey that will involve some pain.

Don't outsource your responsibility to a consultant or lawyer. While independent advice is essential, ultimate responsibility for success rests with the owner.

Choose franchisees carefully, and not until the system is well tested and proven. Your success will depend on their success.