

Midlands Business Journal

DECEMBER 19, 2014

THE WEEKLY BUSINESS PAPER OF GREATER OMAHA, LINCOLN AND COUNCIL BLUFFS

VOL. 40 NO. 51

Interest in franchise ownership driven by investment opportunity, succession

by Michelle Leach

Traditionally perceived as the domain of career changers, the face of franchising is changing driven by factors such as family succession planning and improved economic outlook.

"I was in franchising in 2008 when the recession hit and capital froze," said Vice President of Sales with Volano Solutions Kelly Grace. "That was a bad time to be in this business but we weathered it. I think each subsequent year after 2011 to 2012 has been great for the franchise concept and the franchise industry in general has seen growth that outpaces many other sectors."

Grace, who sells, supports and consults with franchise companies on a mobile app called Action Card, retraced his steps to when he worked for California-based auto parts distributor 1-800-Radiator.

He said the owner struggled to drive consistency across national corporate warehouses due to lack of "ownership" from management.

"He liked it when people were invested in the business," Grace said. "He also knew that if he expanded the model, mitigated expansion costs through franchising and created a large, national brand he could increase his buying power and be more competitive in markets that lacked a local presence."

As a franchisor, the motivation Grace said was economics — knowing he has a strong model and unique differentiator.

Franchisees' motivations, according to Grace, stemmed to weariness of existing jobs and little capital to invest.

"They wanted to be their own boss," he said. "Others wanted to buy into the system with the intent on managing multiple locations and increasing their net return. The common denominator is that these people wanted to minimize their risk of business ownership by investing in a known entity."

McGrath North Attorney Brian T. McKernan indicated franchise operations have been likened to "entrepreneurship on training wheels."

"It provides you with a system," he said, noting on the flipside, "If you have a true entrepreneurial spirit, you may feel constrained."

Some entrepreneurs, for instance, may see there is a "better way" to do something than



Volano Solutions' Kelly Grace, left, meets with client Don Norland, regional manager of Sprint Store by Jet Mobile, to discuss Volano Solutions' Action Card for standard compliance store visits/reviews.

what is offered within the system.

That said, McKernan also noted historically some of the greatest innovations came from franchisees.

"The best franchisors are the ones that communicate and work with their franchisees the best," he said.

For instance, McKernan noted a franchisee within a dry cleaning company who identified a unique approach to maximize revenue that can then "lead to the whole franchise system."

If communication doesn't happen, though, there is no way to see this unique approach happening within the company.

Generally, he said there appears to be a "thawing" in terms of enthusiasm from both franchisors and franchisees, driven partly by financing becoming more available.

When asked about the types of franchise concepts he is seeing, McKernan noted businesses are in more "traditional areas," as opposed to "hot" sectors such as health care IT that may not necessarily lend themselves to the franchise model.

McKernan emphasized that potential franchise opportunities should be assessed

for, one, uniqueness and, two, staying power.

He said one must question if it's a fad. He referenced how certain concepts can be seen seemingly one day around every block. Fast-forward and many of those businesses are no longer around.

"You always have to look at, 'Where am I at? What is my market? Am I serving a unique concept in the market?'" he said.

FranNet Franchise Consultant Alison Mairet said home health is one of the newer concepts in the industry.

"It can be very scalable," she said. "It just takes time, and it's such a referral business."

Business-to-business services, such as staffing companies, are also in demand, she said, underscoring the importance of sales training with these concepts to get the phones ringing.

"Another really popular industry is personal services," Mairet said.

Value haircutting, massage and spa services are examples.

Mairet also noted a number of interesting trends in terms of ownership; for instance, she said locally and nationally FranNet has noticed older family members purchasing

franchise businesses to pass on to the next generation to operate.

She is also noticing a number of existing business owners who perceive a franchise location as an investment opportunity — something to complement existing business.

"There is some seasonality in it," she said. "The owner wants to figure out what can be added during the winter months."

To another notable shift, Mairet said a few years back most people in franchises had encountered a crossroads in their careers. She characterized at that timeframe about 80 percent of prospects would be described as career changers due to factors such as layoffs.

"We do experience those today ... but now it's more like [half] are leaving their career," she said. "The other half is opening something while they're working on another business."

Senior Director of Business Attraction Winsley Durand III said the interest the Greater Omaha Chamber has been experiencing is mostly from people interested in franchising an existing concept.

"The path to obtaining information for individuals wanting to become franchisees is getting easier," he said. "Most of the franchisors now have a great deal of information about franchising with them on their website."

"There are also a great deal of groups that can assist potential franchisees and walking through the process and finding a good match for their assets and their personalities."

It is imperative, he said, for potential franchisees to explore all options.

"I believe that the due diligence piece is the most important portion of opening the franchise," he said. "Without a firm foundation, knowing what resources will be provided to you by the franchisor, and knowing if the franchise meshes with your skill sets and assets, will greatly determine the degree of success that can be obtained through that venture."

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from the December 19, 2014 issue of the
Midlands Business Journal*

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