Recession + Franchising + Smart Strategy
Can = Success!

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After 30 years in the franchising industry, I would like to think that I've seen most everything that can happen in our business in both good economies and poor ones. Franchising, at times, is a strange business. Franchise companies and their franchisees all can do very well in a good economy, but also can do well in a challenging economy. Unlike most industries, many franchisors do even better in an economic downturn (or recession!) in the context of the franchise system's growth.

Personally, I've been involved in franchising through several recessions triggered by events such as the tech bubble bursting, 9-11 and global terrorism, the American mortgage and banking crisis, Avian Flu, Swine Flu, MERS, SARS, and now the COVID-19 Coronavirus pandemic. The only constant in encountering all of these unexpected events is that, in general, the organizations of which I have been a part or with which I have worked often performed just as well – sometimes better – in a challenged economy compared to a better one.

I know that's counterintuitive, but the real question is <u>why</u>?

The last few decades have shown us that the franchise sales marketplace often becomes stronger in an economic downturn for specific reasons such as the following:

First, in a poor economy, unemployment grows. Those who are dismissed or downsized may not find a new position in a similar profession or circumstance. Those in middle to senior management are usually more invested in themselves and their futures than "just another job," especially one that pays less because of the downturn. Some individuals may uncover their entrepreneurial predisposition and realize that they are better suited to pursue a franchise opportunity.

Second, individual investors who are adversely affected by drops in the stock market and/or real estate market often begin thinking about owning their own business. A franchise business appeals to them because of the lower level of investment and availability of corporate support. Franchise businesses can operate in a marketplace where they can grow as assets, while also harvesting real-time income once the business is up and operating. Smaller and mid-market level investors who previously may have purchased more traditional investments have discovered that the economic opportunities in multi-unit franchising are real and obtainable. For the most part, franchisee candidates who apply during an economic downturn often are much better, stronger, and more experienced businesspeople and franchisees compared to the general population.

Third, in an economic downtown, including this one, the government encourages and provides incentives for banks to provide easier access to capital. Senior lawmakers and policymakers already are preparing to do this for this crisis.

Fourth, economic downturns often make the commercial real estate market much more of a tenant's market than a property owner's/landlord's market. Thus, savvy franchisees can negotiate leases at excellent rent prices and with advantageous terms.

Franchising is a proven business model with built-in systems, technology, training, purchasing support, marketing support, policies, operational predictability, and the power of an existing brand. Franchising provides prospective franchisees and investors greater confidence and predictability in managing perceived risk, growth, and profits compared to a wholly stand-alone business.

In a good franchise system, the ability to have the support of the existing franchisee network inspires even more confidence in both the franchisor and the potential franchisee. The known rate of unit closure allows the prospective franchisee to better understand his or her risks and opportunities for success. Also, prospective franchisees can interview existing franchisees as part of their due diligence.

Franchisors, with the right strategy and guidance, can still succeed in their growth strategy in a difficult economic market, as long as they do several things well. For example, franchisors must adequately and properly target their marketing in order to create a sufficient pool of qualified leads to meet growth objectives. Franchisors must choose the best-quality candidates who are a good fit for the company.

Franchisors also must create real and meaningful relationship-driven communication with existing and potential franchisees. Outside guidance can help smooth this process. This genuine transparency allows for franchisors and franchisees to be fully educated about one another, their respective points of view, and the mutually beneficial potential economic opportunities and benefits.

For example, franchisors must understand the business, economic, and lifestyle goals of potential franchisees as they relate to the specific franchise system and explain how they can help franchisees achieve those goals. By the same token, franchisees must be aware of what their respective strengths are and how best to use them, as well as what their respective weaknesses are and how becoming a franchisee will mitigate those weaknesses. Franchisees must also understand and be willing to work within the structure of the franchisors' respective businesses and business models, their points of view, best practices, and policies and procedures.

Once all parties agree that the relationship will likely lead to everyone meeting their respective goals, it is appropriate to move forward with those high-quality candidates who can be great franchisees, and thus move forward to mutual success.