How to
Grow and Sell
a Franchise Business

Introduction

Building a franchise business is hard work and when it is time to exit from the business you deserve to see the fruits of your labour. However, to get the most value on exit you need to start planning early. There are a number of key factors in addition to the level of profit that you generate, that any savvy prospective buyer will be looking for. Things that are core to any successful, well run franchise.

Few franchisors can claim to be perfect in all of these key areas, but it is these things in combination with your profit levels (which they will also have an impact on), that will ultimately determine the saleability and value of your business. This guide will tell you what each of these key areas are, why they are so important to a buyer and how you can strengthen your business in each area to achieve the best possible exit.

Of course, none of these key elements of a franchisor business will be new to you. But what will be new is the process by which each one is measured, enhanced and measured again until, using a structured process, your business shines in each area and is ready for sale.

What Makes a Franchise Business Attractive to a Buyer?

Franchise businesses are bought for all sorts of reasons, but whatever the reason the buyer is looking for certain fundamentals to be in good shape. We call these "The Nine Drivers of Equity Value" and they form the basis of our model to increase the value of your business.

Think of each driver as an opportunity to either increase or decrease the ability of your business to deliver predictable, robust profit growth for a prospective buyer. Our objective in working through this process together is to optimise performance for each driver and enable you to demonstrate to a buyer not just what profits were last year, but that the elements are in place to ensure continued, profitable growth.

THE NINE DRIVERS OF EQUITY VALUE

1 The Operating System

An established, documented and protected template for all areas of the business.

Essentially what we are talking about here is intellectual property. The importance to a buyer is that if you can demonstrate a detailed and robust approach to intellectual property in all areas of the business it de-risks the purchase. The buyer knows that existing and future franchisees have an established operating system to follow and that the head office team are similarly following a system. This means the business is not dependent on people or exposed to the possibility of the intellectual property of the business evaporating if key staff or franchisees leave the business.

2 The Market Proposition for Prospective Franchisees

A proven, successful franchise model that attracts new franchisees.

The lifeblood of any franchise business is its ability to recruit new franchisees both in the initial growth stages, later on for resales and to replace poorly performing franchisees with good quality ones as the franchise matures. When a buyer assesses the ability of the business to do that, they will look at how attractive the offering is to prospective franchisees, whether the franchisee business model is genuinely competitive in the end user market and whether the franchise operates in a sector that has a good long term future. It is also very important to demonstrate that within the franchise market, your offering stands out in comparison to other similar franchise offerings.

3 The Franchise Marketing and Recruitment Process

An established process that delivers new franchisees in the right quantity and quality.

The long term stability and profitability of a franchise system is dependent on the quality of its franchisees. A buyer will want to see that you have a disciplined, structured system in place for recruiting good quality franchisees in sufficient numbers. This means both your ability to attract a high level of good quality franchise enquiries and a robust system for ensuring that you only recruit people that you are as sure as you can be, will make good franchisees. If a good, formal system does not exist, you are left open to the suspicion that your recruitment goals are short term and that the process is geared more towards earning joining fees than building a solid long term business.

4 Franchisee Management and Relationships

Happy, productive franchisees that use the system to succeed.

What the buyer is looking for here is security of investment – are they buying a business with solid foundations to build on or are half the franchisees about to walk out? You will need to show that you have a system for monitoring your franchisees performance, for collecting feedback from them and what that feedback is. And of course, the buyer will be hoping to see that the feedback shows your franchisees are happy with you the franchisor, the system, their fellow franchisees and their own performance. Whilst no franchisor will score 100% here, the buyer will want to be confident that the vast majority of franchisees are happy, successful and intend to stay and build on that success..

5 Franchisee Sales and Revenue Growth

A consistent pattern of sales and profit growth amongst franchisees.

One of the most important aspects for any buyer is whether the business has the potential to grow and produce greater profits in the future. A main driver of growth overall is of course the ability of each individual franchise unit to increase their own revenues. The buyer will want to see a history of franchisee growth, areas indentified for driving future growth and some highly successful franchisees that demonstrate it can be done.

6 The Franchisor Head Office Team

A team in place that can continue to drive the business on to greater success.

Here a buyer is looking for a team with a track record of success, for continuity after the purchase and the desire and ability of the team to take the business forward. The pieces of the jigsaw are your intentions after the sale, the buyer's intentions and desire to get involved in the management of the business and the strength of your other head office team members. This is an area that may require time and planning to get right and ensure that the team presented at the time of exit has the experience, skills and leadership qualities that a buyer wants to invest in.

7. Legal Considerations

A framework in place that will protect the business from past and future legal threats.

This area is likely to be as important to you as it is to the buyer of your business. When a business is sold the buyer often seeks warranties against legal action taken against the business as a result of the actions of the previous management. So, it is in your interests to make sure that all legal aspects of the business are as correct, clean and robust as possible prior to sale.

8 Quality of Franchise Fee Revenues

Predictable and secure revenue streams.

Any buyer of a business wants to see that the revenue streams are locked in. In your case that means that there isn't a high failure rate of franchisees, that a high percentage of franchisees renew their agreements and that revenue from franchise fees is secure and undisputable.

9 Sales and Profit Growth

Consistent growth in sales and profit with the potential of more to come.

This of course is a primary driver of equity value in a business. A track record of erratic revenues and profits would concern any buyer. They want to see sustained growth in revenue and profits over the last few years. Not only is it a pointer for future growth but it is also an indicator of how well the business performs in all of the other drivers for equity value.

How Can I Increase the Value of My Business?

Having looked at why the nine drivers affect the equity value of your business, we now need to look at how you can have an impact in each of the nine areas to increase the value and maximise your exit strategy.

So far you probably haven't learnt anything new – you know what makes a franchise business tick, the difference between good and poor practice. But what you probably don't have in place is the process by which you can target and improve each of these areas in turn.

This process is based on the tried and tested method of benchmarking. It is used in every type of business around the world to measure and improve business functions and processes. Whilst the technology and methodology are well proven, The Franchise Development Centre is the first company to develop it specifically for franchise organisations.

During this process, together we will examine each of the nine drivers of equity value for your business. This is a detailed process which entails discussing the key metrics for each driver. You will be asked to give an honest appraisal of your performance and give your business a score for each metric. This will build a detailed picture of business performance against known benchmarks and indentify the areas of the business which require attention. Where metric scores indicate a weakness in one of the nine drivers, we will discuss actions required.

The measurements, goals and actions required are all inputted into our bespoke software, which will at the end of the process produce a detailed action plan. This then becomes our roadmap to developing your business in all of the key areas required to increase its equity value. (This process can and should be repeated at regular intervals to measure progress.)

How we work together beyond this point is your decision, but a large part of the value we bring to the process is to make sure that it doesn't get put aside to deal with the day to day events that arise from running your business. Our role here is to keep the process on track, hold people accountable for agreed actions and to ensure that you reach your long term goal.

How Do I Find Out if My Business is Attractive to a Buyer?

When selling a business timing is crucial and there are two main elements to this; is your business in a good position to sell and is the market for acquisitions favourable?

If both factors are working in your favour, your business may well be attractive to buyers, but how do you find out? Well there are basically two approaches; you can speak to advisors with knowledge and experience of the market or you can test the market by putting your business up for sale. Obviously one is a considered approach which may be longer term, but is designed to maximise your financial return on exit. The other is a roll of the dice.

Our team has the knowledge and experience to advise you whether your business is ready for sale and what current market conditions are like for disposals of this sort. Whether the timing is right for an immediate sale or whether a longer term strategy is required to maximise the equity value, our role is to guide you through the process and ensure you achieve your objective.

more >

What Are the Exit Options Available to Me?

There are many options available when it comes to selling a business or releasing equity value, but these are the five main routes;

Trade Buyer; This is likely to be a strategic acquisition either from someone already in the franchising sector or someone in your industry. It may be to expand their existing franchise operations or extend their geographic footprint and market share in their core market.

Management Buy-Out; This is when some of your existing management team raises capital from third-party investors or lenders to buy out you and any other shareholders.

Debt Re-structuring; This is where bank debt is used to re-structure the shareholding. Cash is made available to you and a larger shareholding is distributed to smaller shareholders.

Investment House; Franchising is starting to appear on the radar of Private Equity houses. A trend that was not surprisingly, started in the US. Whilst this trend is still in its early stages in the UK, the appeal of a well managed franchise system for an investor is the steady, secure flow of revenues and profits it can generate.

Stock Market Flotation; Obviously an exit route for larger companies, but the alternative markets do see some fairly small floatations. However, this is a huge, costly and distracting process, so this may be the least likely option for a franchisor.

Which Option is Best for Me?

Size may rule out some of the options, but it will depend largely on what you want and how you see your future involvement in the business. If you don't want any future involvement, then selling out completely to a trade buyer could be the best option, although you may still be retained for a short period of time. If you are looking to release equity value but would still like to play a role in the future development of the business, then one of the options that releases cash and redistributes shares may be more appropriate.

What Should I do Now?

Well, if you have got this far, you will have realised that there is a lot to do to achieve a successful sale and meet your financial and personal objectives. Preparing a business for sale takes time – sometimes years. The important thing is to take action now and you can never start the planning process too early.

Initial Benchmarking and Valuation

The first step is to establish what your exit goals are, how saleable your business currently is and what needs to be done to achieve your goals. This involves the initial benchmarking process, where working together we benchmark your business across the nine drivers of equity value and 80 best practice metrics.

This will enable us to identify the strengths and weaknesses within the business and identify the short term wins for increasing equity value. This in turn will enable us to prioritise and produce an action plan to tackle the areas that will provide the highest financial gain in the shortest period of time.

This two day workshop will give you a detailed snapshot of where your business is today, where your nine drivers of equity value need work and a clear plan of action for doing this to increase the equity value in your business. If you opt to enlist our support in seeing the process through, we will also produce a structured plan for working together and achieving your goals.

more >

Summary

So, there is a lot to think about, but the main points that we have discussed are:

- **Buyers are seeking well run companies with a secure flow of revenues and profits.**
- **Use the "*Nine drivers of equity value*" to increase value and make your business more attractive to buyers.**
- **There are a range of exit options to choose from to achieve your objectives.**
- **Good preparation is the key to a smooth and successful exit.**
- **It is never too early to start your preparation.**

The Franchise Development Centre

If after reading this guide you want to explore your growth and exit options contact us now.

All enquiries will be treated in the strictest confidence.

The Franchise Development Centre
Innovation Centre, Innovation Way
Science Park, York, YO10 5DG

Tel. 01904 561598

www.thefranchisedevelopmentcentre.co.uk
email info@thefranchisedevelopmentcentre.co.uk

statusdesign.co.uk • 8215FDCv1