

# The Future Of Franchising . . . Today!

Five trends that will carry franchising into the 21st century

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It is the question most asked by small-business investors: "What's hot in franchising today?"

Everyone knows a franchising success story; they have become part of our cultural history. Ray Kroc and Colonel Sanders long ago elevated the idea of franchise success to the level of popular myth. Not only were they spectacularly successful in creating McDonald's and Kentucky Fried Chicken, respectively, they also made millionaires of the hundreds of people who invested early in their promising franchising programs.

But what in franchising is new and hot now? And how does someone interested in the special advantages of owning a franchised business find the programs that are new and promising?

## Define Your Own Success

Of course, the answers will not be the same for everyone. Franchising is not an industry; it is a method of distribution. The method is used in as many as 60 industry classifications, from restaurants to automotive services, and new concepts are arriving on the market every week. There is no uniformity to the level of investment across those industries, so what constitutes a hot franchise for you will depend to some degree on your financial resources, your region of the country, your areas of interest, your working circumstances and the profit potential of the individual franchise system itself.

Franchising has seen its share of trends, fads, fadeouts, pretenders and champions. What is surging today may drop from sight tomorrow, and the solid but little-known business idea in your home town may grow to a household name in just a few years. That is part of the magic and the excitement of franchising. But for you, the investor, the fortunes and

failures of franchising add a measure of risk you need to minimize.

Is buying a franchise risky? Successful franchise ownership is like rock climbing. Climbers check their equipment three times, then check it again. They are the most intense and cautious people you will ever meet. Climbers reduce the inherent risks of the sport with training and a fanatic's attention to detail in safety equipment. Your challenge, as a franchise buyer, is to check your investment equipment carefully, study the available programs and make educated decisions about investing.

## Growth spurts

Even though, according to recent studies, franchising has come to represent an extraordinary 40 percent of the national retail economy, it is still a relatively young business concept. While scattered pioneers like McDonald's (the grandfather of franchising) appeared in the 1950s, the concept's first big growth spurt occurred in the early '70s. The dominant franchisors of that era offered retail and fast food businesses. The '70s also saw the rise of state and federal regulation of both franchise sales and the franchise relationship.

The second influx of franchising, which hit in the mid- to late '80s, featured the expansion of franchising into service businesses. Everything from eyeglasses and copy centers to real estate and commercial cleaning was franchised. Franchising took hold in the daycare, auto detailing, diet counseling, convenience foodstore, retail furniture and pharmaceutical industries. As the economy shifted to a service base, franchising followed suit.

We are now well into the third wave of franchising, and it promises to be a most exciting period for would-be franchisees. Following on the heels of the 1989-90 recession and the unprecedented downsizing of the large American corporation, new, low-investment franchise offerings have come to the marketplace. There are a rich array of market niche programs that allow individuals to get into a proven business with relative ease. Many of the new programs can be operated from home and rely heavily on the advantages of new communications technology.

"Look for most of the growth in franchising during this decade to be in the

service arena," says Dr. Robert Justis of Louisiana State University, Baton Rouge, author of the leading undergraduate textbook on franchising. "We will see a variety of non-traditional approaches to the delivery of those services.

"We are already seeing considerable growth in the delivery of medical and at-home care services and everything else, from wellness and fitness groups to dentistry and chiropractic services. And, of course, as the baby-boomers approach their senior years, we can expect franchising to take root in the fertile soil of elder care services."

Excitement for the balance of the century will be generated in the following five franchising trends:

1. Single Product Stores. Retail businesses that are built around specialty products are perhaps the most visible niche development in modern franchising.

"Specialty food product businesses are not even close to saturation levels," says Dr. Justis, "Franchises such as Great Harvest Bread Company bakeries, which offer a specially made, fresh product at a premium price will continue to thrive in the '90s."

Great Harvest bakeries, a national, 100-unit system based in Dillon, Montana, offer freshly baked whole-wheat breads, made from Montana wheat that is milled on the bakery premises. It has emerged as an industry leader and a franchising original. The waiting list for franchise buyers is considerable, largely because of the company's determined slow growth policies and selectivity in appointing Great Harvest bakery owners.

Specialty single-product franchising--pioneered, of course, by Dunkin' Donuts and Baskin-Robbins and a gaggle of yogurt concepts--has also proliferated around products as diverse and familiar as penny candy, soft pretzels, designer coffee, cookies and healthy smoothie shakes.

The phenomenon is not limited to food items, however. Snap-On Tools offers a mobile dealership built around premium automobile hand tools; Perma-Glaze offers a tile glazing franchise opportunity; and American Leak Detection has built its franchise program around the unusual service

of leak detection in swimming pools and concrete slab home construction.

2. Smaller, Non-Traditional Retail Locations. The latest and most dramatic change in franchising is "non-traditional" retail locations. Perhaps you have noticed familiar products now showing up in unfamiliar places. Airports, turnpikes, mall kiosks, convenience stores and outdoor festivals have sprouted small outlets for products usually found in free-standing retail locations.

You pick up your luggage after a long flight, and there by the baggage carousel is a Dunkin' Donuts stand. You stop by a Mobil service station, and in a corner of the convenience food mart is a mini-retail McDonald's.

"The secret of location selection in non-traditional franchising in the '90s is foot traffic," says Joseph R. Simone, former president of two national pizza chains and now CEO/COO of Moes To Go Corporation, franchisor of Moes Italian Sandwiches shops with headquarters in Bortsmith, New Hampshire. "Many business concepts are discovering an entirely new dimension of market expansion into high foot traffic locations of all types. Anywhere Americans gather in this decade, we can expect to find some of franchising's most familiar brand names close at hand."

Exploitation of market nooks and crannies is driven by the continuing expectation of the American consumer for ultimate convenience, and by the marketers' desire to maximize the value of a national distribution system like franchising. Retailers tend to follow the dollar, and the dollar is moving through virtually any high foot traffic locations, not only in cars cruising the hamburger strip.

"Small is bigger in service-based businesses," says Simone, an early proponent of non-traditional approaches to franchised retailing. "The Moes Italian Sandwiches program is a prime example. These shops will fit into as little as 100 square feet, and involve a total investment of about \$40,000. You couldn't find franchised opportunities on this scale 10 years ago."

According to Simone, "The '90s have created a huge number of very low-investment programs. With as little as \$10,000 or \$15,000 to invest, an entrepreneur has far more choices in franchised businesses than we saw

in the '80s."

This new approach holds both promise and problems for traditional retail location franchise owners. Who will own the kiosk in the mall just down the street from their store? This will depend upon the approach being taken by the franchisor and the territorial protections delineated in the franchise agreement. Anyone buying a franchise in this decade is well advised to get legal advice on exactly what territorial protection he or she is receiving in the contract.

3. Home Delivery Businesses. The ultimate expression of convenience is home delivery, and franchising has perfected the concept. Domino's pizza delivery has effectively demonstrated the value of home delivery by its franchisees. It has grown exponentially, without sit-down retail restaurants, thus lowering the investor's cost of getting into the business, and has led the way for a number of franchise systems designed to deliver to your home everything from baby supplies to local restaurant fare.

"You can expect the trend toward convenient services in the home to continue," says Simone. "Even the biggest franchise systems are experimenting with ways to reach their customers at local gatherings or in the home. This trend will be driven hard by our aging population, the increasing costs of personal transportation, and the demands of customer convenience."

The key to success for smaller retail locations, as for full-scale retailing operations, is location. Finding smaller locations with sufficient foot traffic still poses a challenge to new franchise owners, but the right franchise system will give you the assistance you need to choose the right location for your business.

4. Homebased and Part-Time Businesses. The hottest growth in franchising has been among those franchises that may be operated at home on a part- or full-time basis, or those retail businesses that are designed to fit into smaller retail outlets. The trend reflects the enormous societal move toward homebased businesses, the desire by so many investors to supplement their income, and the growing ranks of smaller investors aching to leave the limitations of their weekly paycheck.

A new and unique franchise offering illustrates the trend. Babbitt Baseball Camps Inc. of Burtonsville, Maryland, recently launched a new franchise program for the operation of summer youth baseball day camps. The franchise fee is \$1,000; total investment is estimated to be between \$3,000 and \$8,000.

"We anticipated that our camp program would attract school coaches and teachers who have the time in the summer to run a part-time business," says Todd Babbitt, the company's vice-president, "But we found our greatest response has been from people who own their own businesses or work in flexible jobs and want to add a fun, part-time summer money-maker to their business lives."

In the arena of professional services, Priority Management Systems of Bellevue, Washington, offers a top-ranked executive training program that is run from the franchisee's home. The absence of office space overhead allows franchisees to get into the business for a total initial investment between \$38,500 and \$52,000.

5. Professional Add-On Businesses. Independent professionals and trade service providers have long understood the value of banding together. Affiliation franchises offer existing business owners new marketing punch. A real estate broker decides to affiliate with Century 21; a pharmacy signs on with Medicine Shoppe; or a motel owner converts to a Comfort Inn. Each business adopts the total image of the franchisor. Similar programs exist for home repair contractors, plumbers, optometrists, dentists and other skilled professionals.

Current franchise programs bring a refinement on this idea: professionals who unite for a well-packaged sideline product or service.

For instance, The EDSA Group Inc., of Baton Rouge, Louisiana, developed a series of workshops on personal finance and retirement planning, and has successfully delivered them to its own corporate clients. Now the company is offering a franchise to professional financial planners as an attractive add-on to their basic businesses. The typical EDSA Group member business continues to operate under its own name, but holds itself out as a licensed member of The EDSA Group's training network.

One year into the program, EDSA's president, Bill Pomeroy, is enthusiastic and says he understands the demands of this new franchising form. "A program like ours does not restrict professionals, but protects and elevates the image of their business."

## What's Ahead

The opportunities in franchising have never been better for savvy investors from every income level. Women are taking larger roles in small-business ownership in our economy, and franchising offers an many of them attractive option.

What's hot in franchising is the breadth of opportunity for new categories of investors who are willing to step up and feel the heat.

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## For More Information . . .

The Federal Trade Commission provides a package of information about the FTC Franchise and Business Opportunity Rule free of charge. Write to: Public Reference Branch, Federal Trade Commission, Washington, DC 20580. Or call: (202) 326-3128.