



## FRANCHISE RECRUITMENT: UNDERSTANDING THE CHALLENGE

### PASSING THE TORCH

Numerous studies show that Quebec entrepreneurs will face with a major challenge: preparing their business succession. And the franchise world is no exception<sup>1</sup>! However, entrepreneurs either don't yet feel the urgency to prepare the grounds for the future transfer of ownership or fail to be proactive in this task putting off the launch of the necessary strategic efforts.

A franchise recruitment process being far more complex than a simple business transfer, the following statistics give us ample food for thought:

- According to a survey by the *Fondation de l'entrepreneurship*: **55,000 entrepreneurs** plan to sell their business or step down by 2020. At the same time, only **33,000 people** express intention to pick up the torch;
- The entrepreneurial deficit will come up to approximate **22,000 people**;
- Between **8,000 and 10,000** Quebec businesses are threatened with closure over the next 10 years due to the entrepreneurial deficit<sup>2</sup>;
- In the entrepreneurial deficit context, businesses would need to find strategies to seduce potential buyers;
- According to a report by the Board of Trade of Metropolitan Montreal, **21%** of businesses at risk of closure are in the retail and hospitality/restaurant services, the two most important sectors of the franchise industry<sup>3</sup>;
- **50%** of entrepreneurs age 55 and over who intend to sell or transfer their business have no ownership transfer plan<sup>4</sup>;

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<sup>1</sup> Jean H. Gagnon, Ad. E., Les défis de la relève: Un franchiseur doit-il être proactif ou réactif ?, Monday, August 10, 2015

<sup>2</sup> Board of Trade of Metropolitan Montreal, Transferring Businesses to the Succession: A Major Issue for the Québec Economy and the Sustainability of the SMEs, 2014, [http://ccmmdev.com/pdf/transferring\\_businesses\\_to\\_the\\_succession.pdf](http://ccmmdev.com/pdf/transferring_businesses_to_the_succession.pdf)

<sup>3</sup> Transferring Businesses to the Succession: A Major Issue for the Québec Economy and the Sustainability of the SMEs

<sup>4</sup> Centre de vigie et de recherche sur la culture entrepreneuriale, Fondation de l'entrepreneurship, La relève est-elle au rendez-vous au Québec?, 2010, and [www.fromsuccessstosuccession.com](http://www.fromsuccessstosuccession.com)



- **83%** of business owners believe that it will take them less than three years to transfer their business while experts estimate it at seven years<sup>5</sup>!

## THE CHALLENGE OF FRANCHISE HIRING

Here we address one of the aspects of the vast subject of business succession planning, namely the complexity of finding and assessing candidates for succession and business transfer in a franchise context. We believe the top two challenges would be 1) entrepreneurial deficit and 2) difficulty to identify the ultimate successor profile.

### Entrepreneurial Deficit

The success of a business succession plan largely depends on the quality of potential buyers. Over the past several years, franchise networks have been facing the growing challenge of identifying suitable successors who meet all the criteria needed to ensure business continuity. A candidate's motivation, experience and financial resources, while important, are not a guarantee of success in the franchise world. A bad selection of a franchisee could potentially harm the whole network.

- In 2014, only 17.5% of Quebecers going into business preferred the option of taking over or buying out an existing firm<sup>6</sup>. Younger people find the business transfer option less attractive, which significantly cuts down the pool of entrepreneurs who may be interested in the acquisition of an existing franchise.
- Less than 50% of potential buyers between the ages of 18 and 34 believe that they have the skills to take possession of a business. This number rises to 76.4% for people age 35 and over<sup>7</sup>.

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<sup>5</sup> Centre de vigie et de recherche sur la culture entrepreneuriale, Fondation de l'entrepreneurship, La relève est-elle au rendez-vous au Québec?, 2010, and [www.fromsuccesstosuccession.com](http://www.fromsuccesstosuccession.com)

<sup>6</sup> Board of Trade of Metropolitan Montreal, Transferring Businesses to the Succession: A Major Issue for the Québec Economy and the Sustainability of the SMEs, 2014, [http://ccmmdev.com/pdf/transferring\\_businesses\\_to\\_the\\_succession.pdf](http://ccmmdev.com/pdf/transferring_businesses_to_the_succession.pdf)

<sup>7</sup> Centre de vigie et de recherche sur la culture entrepreneuriale, Fondation de l'entrepreneurship, La relève est-elle au rendez-vous au Québec?, 2010, and [www.fromsuccesstosuccession.com](http://www.fromsuccesstosuccession.com)

## Ultimate Profile

- According to BDC, 78% of business owners cited difficulty finding a suitable successor as an obstacle to succession planning. 20% of entrepreneurs chose to close their business under the circumstances. In the case of a franchise network, the task often falls on the shoulders of the franchisor.
- Greg Nathan, founder of the Franchise Relationships Institute, points out that 40% of a franchisee's success, assuming that a franchise system is based on a proven business concept, will come through the application of their own hard work and talents, hence the importance of the rigorous selection of quality candidates. The cost of failure is estimated at \$250,000.

The screening of franchisees is therefore a difficult and delicate task. It becomes essential to rethink the whole selection process, as the practice of the past 10-15 years is no longer sufficient. The *Académie québécoise de la franchise* can help you redesign your franchisee screening process to ensure their perfect alignment with the requirements and needs of your banner, and specifically with your organizational culture and vision.

## Franchisee Screening Strategy

Whether in a context of succession or expansion of a franchise network, a rigorous process of attracting and selecting franchisees is essential for the future success. Inspired by the book "Baseline Selling", a best-seller by Dave Kurlan, aimed at improving the efficiency and effectiveness of sales teams, we applied the same concepts to the franchisee screening strategy. The book uses a baseball field analogy to provide a simple visual representation of the sales pipeline.

### Optimization model: attracting and selecting franchisees<sup>8</sup>



<sup>8</sup> The original diagram by *Prima Ressource*, a sales support expert, [www.primaressource.com](http://www.primaressource.com), adapted by Totem Performance organisationnelle



## 1- Opportunities leads

The first step would be to implement a strategy to attract the maximum number of potential franchisees who meet the requirements of your desired profile. The bigger the pool, the better your chances are to find that rare gem. However, attracting a large number of people who do not match the search profile would mean high screening costs for the network. Here are some tips:

- Define the desired profile. This subject by itself deserves a closer look and we will come back to it later;
- Launch an internal recruitment campaign (employees, franchisees and even customers). Several options are possible;
- Use a variety of methods to launch your search for potential franchisees online (website, social networks, blog, etc.) and offline (trade fairs, print media advertizing, etc.);
- Build a solid reputation that naturally draws potential candidates.

## 2- Suspects leads

It is the first round of your screening process. Ideally, you should design and apply a validation tool to verify the level of interest and to evaluate the profile based on the franchise expectations. The tool must:

- Be cost-effective to administer;
- Define the desired profile based on the network values;
- Validate the enthusiasm and determination of applicants;
- Seduce high-potential entrepreneurs ("Wow" experience).

## 3- Prospects leads

At this stage, your strategy should combine effective interviews with hands-on business tryouts. Such immersion would help you analyze the performance and behavior of candidates in a real-world context. According to Lorelle Frazer from Griffith University, the trial period is crucial and also allows collecting feedback from current franchisees. The quality of the



interviewers themselves and the pertinence of the questions asked are critical in the candidate selection process.

#### 4- Qualified leads

At this stage you select the candidates who will stay in the race. It is important to validate their profiles against the desired franchisee profile. Thus, the definition of the ideal profile by the network is essential. Several criteria seem obvious: financial capacity, entrepreneurial potential, management skills, team support, etc. Yet, there is another significant element to include in such assessment, i.e. the alignment between the candidate's focus of attention and the banner's core interest, in other words your brand image<sup>9</sup>. All potential candidates should be sorted through this filter proposed by the franchisees directly.

*A 10-year research<sup>1</sup> into the roles of each player within a franchise allowed to confirm that the articulation and communication of a brand weakens as we move further from the management towards the customer. Does everyone in the network share the same understanding of the brand, its image and his/her personal role in the attainment of this vision? If not, this point must be clarified before designing a recruitment strategy.*

*<sup>1</sup> Ken Billot, Australia and New Zealand Marketing Academy*

#### 5- Recruited

Most franchisors have well-established effective processes to support this final stage. We also recommend you to offer specific tools and methods to support a smooth business ownership transfer.

The Totem team can help you design an effective customized strategy to attract and select franchisees, as well as assist you in the development of suitable tools.

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<sup>9</sup> Greg Nathan, Franchise Relationships Institute, The Franchise Relationships Book of Tips, 2013.