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Top 10 Reasons Why Franchise Systems Fail

1. Failure to have a concept that works or is unique, special or cannot be copied by others. What is the "secret sauce?" Are there any patented products? Is there any proprietary information? Can anyone replicate the business or are there significant barriers to entry?

2. Failure to have a concept that can be copied by others. Although this sounds contradictory to the first point, can the business be replicated by franchisees or is it too complicated or dependent upon the franchisor's personal connections, skills or personality?

3. Failure to have or develop a strong brand name. Does the brand name convey the nature of the business? Is the brand name perceived positively? Can it be registered as a trademark?

4. Failure to fully develop the concept and implementation and to work out the kinks. Franchisees purchase franchises to obtain the guidance and support that they need to establish and operate the business and to avoid the mistakes that they would make if they were starting their own businesses without affiliation with a franchise system.

5. Failure to have a financially successful business. Is it a proven concept (financially viable) over a period of time? Can it support the additional financial obligations of the franchise system, such as the franchise fee and royalties?

6. Failure to "select" franchisees. Is any potential applicant granted a franchise or does the franchisor select franchisees with a likelihood of success?

7. Failure to support franchisees in connection with starting the franchised business. Frequently franchisors talk in terms of being partners with their franchisees. A phrase commonly used by franchisors is that the benefit of buying a franchise is that you are in business "for yourself, not by yourself." However, in some franchise systems, that is only lip service.

8. Failure to continuously develop the franchised concept and provide continued support for the franchise system. Franchisees are frequently frustrated with the lack of fresh business, marketing and other ideas from the franchisor over the course of time and wonder why they are continuing to pay royalties to the franchisor when it is not continuing to provide anything of value.

9. Failure to adopt and enforce franchise system requirements and guidelines. A key principal of a franchise system is consistency of operations. The failure to adopt policies and procedures that result in that consistency, and the failure to monitor compliance with those policies and procedures, result in quality differences and the failure to maintain high standards. This, in turn, damages the trademarks, each of the franchised businesses and ultimately the franchise system.

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10. Failure to respect franchisees by valuing what they can contribute to the franchise system. Although the franchisor developed the concept, franchisees are on the front lines daily in terms of how the franchised business operates and they may have valuable contributions and innovations to the operation of the franchise system.

Susan E. Wells is a partner with the Phoenix law firm of Wells & Gerstman PLLC. Her corporate and business practice encompasses all aspects of business transactions and commercial relationships in numerous industries, including representing franchisors, franchisees and landlords in connection with their leases with franchisees.