

# Pre-entry franchise education: panacea or placebo?

Executive Summary

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## A word from Corven

**In providing the insight you need, you are able to influence business practices that will make workplace learning fly high. And for that, we thank you.**

Our current industry-of-interest is franchising. We set out to explore the critical issues facing prospective franchisee learning and our 2010 Insight Program asked, *is franchisee pre-entry education the panacea for greater informed decision-making or is it a placebo, with no accountable learning outcomes?*

The results of this study are informative and ready for immediate implementation into your workplace.

We'd like to thank these good franchise citizens, who wished to be acknowledged for their contribution and participation in the study:

7-Eleven	FranchisesforSale.com
Appliance Tagging Services	Hudsons Coffee
The Athlete's Foot	HydroDog
Automotive Brands	John Brown
Bakers Delight	Laing + Simmons
Beaux-Arts Creativity	MCW Lawyers
Boost Juice	Mr Rental Australia & NZ
Business Development Company	Nando's
Chicken Treat	New Zealand Natural
The Coffee Club	Optimum Assurance Group
Cofi	Red Rooster
CTM	Safe Kids in Daily Supervision [SKIDS]
Fastway Couriers	Spindletop Strategists, Advisors & Mentors
Fisher & Paykel	Subway
Fix Your Own Business	SumoSalad
Flippn' Fresh Seafood	Worldwide Online Printing
The Franchise Trainer	

We are also extremely grateful for the encouragement and support from:

Jon Perry and Diversified Exhibitions Australia, in permitting us to survey prospective franchisees visiting the Franchising & Business Opportunities exhibitions around Australia.

Greg Nathan and the Franchise Relationships Institute for promoting our exclusive Field Manager Summit survey on pre-entry education and due diligence.

Conroy Llewellyn, our corporate affairs partner, for their tremendous expertise in bringing our Insight Program to life.

We hope the findings of this study will spark further debate and passionate conversations about education for prospective franchisees and franchisors.

So, the question now becomes what will you do with this insight?

Julia Camm

Principal

Corven

## Panacea or placebo?

**Panacea** [noun] something that will solve problems.

**Placebo** [noun] something that is given to try to satisfy a person who has not given the thing they really want.

This year's study is titled 'Placebo or Panacea: *Is franchisee pre-entry education the panacea for greater informed decision-making or is it a placebo, with no accountable learning outcomes?*'

Our current industry-of-interest is franchising and provides the business context for this study.

Education in franchising is important. You will never hear us say otherwise.

The particular issue of pre-entry education continues to receive political, public and media attention. This follows continual calls for increased franchise and business education, even to the point of making it mandatory for prospective franchisees, which are not abiding.

We know the franchise sector is focused on the success of franchising whilst sharing the risks of any failure. However there are some who believe when failure occurs that it is either solely the franchisor or indeed the franchisee's fault. Corven contends that pre-entry education has a significant role to play in turning the 'blame game' around to focusing on mitigating and sharing success no matter the benchmark standard.

We set out to explore who determines what prospective franchisees should learn and why; how pre-entry education learning outcomes should be assessed and identify the responsibilities of individuals and organisations in the franchise community relating to pre-entry education achievement.

Specifically, this study aimed to:

- Identify and question the market forces that influence pre-entry education learning outcomes and content.
- List methods franchisors and prospective franchisees can use for assessing pre-entry education outcomes.

- Explore the role and responsibilities of Australian franchise community in pre-entry education for franchisees.
- Present the aim, key content and delivery format for a pre-entry education program.
- Compare study findings against current pre-entry education programs.

With just under 1200 participants, this study was conducted through a series of surveys and interviews. Participant data and stories are predominately Australian-centric and reflect the successes and opportunities of pre-entry education and due diligence in a regulated environment.

For the purpose of this study, **pre-entry franchise education** is defined as the learning process that allows prospective franchisees to *gain knowledge of franchising* – not to learn about a specific franchise system.

Pre-entry franchise education consists of two optional components:

1. Self-directed learning by the prospective franchisee, and
2. The prospective franchisee attending and completing a formal pre-entry franchise education program.

In the words of our participants, pre-entry education aims to:

'...make a prospective franchisee aware of the respective roles, rights and responsibilities of franchisees and the franchisor; enables them to prepare a business plan; equips them to compare various franchise opportunities as to the likelihood of being a successful business and likely return on investment and earning potential'

It is recommended that this aim can be achieved through a combination of both self-directed learning [learning independently from an organisation or institution] and attending a formal pre-entry franchise education program.

Pre-entry education occurs before due diligence is conducted on a specific franchise opportunity.

**Due diligence** is the further research and assessment that a prospective franchisee conducts on a *specific business opportunity*.

Due diligence is self-paced, as the prospective franchisee goes about sourcing, analysing, verifying and evaluating the franchise opportunity as they move through the franchisor’s recruitment process. It is this process that provides more information on the specific franchise system; directs prospective franchisees as to what advice they need to seek and from whom; provide assessments that prospective franchisees need to complete before entering into the Franchise Agreement.

Due diligence encourage prospective franchisees to make an informed decision by:

‘... thoroughly investigating the specifics of the franchise opportunity including size of the market, business potential, and suitability of the franchise opportunity... verifying information provided by the franchisor [and] determine financial capacity to effectively establish and operate the franchise.’

This study proposes a formula, that:

self-directed pre-entry education	+	participation in a formal pre-entry franchise education program	+	self-paced due diligence and involvement in the franchisor’s recruitment process	=	highly informed decision resulting in entering into a Franchise Agreement
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While pre-entry education and due diligence may help in delivering an informed decision for both the prospective franchisee and franchisor, it is not conclusive process for delivering capability. In other words, there is no guarantee of success.

Perhaps indicating why, since 1997, there have been government inquiries and ongoing independent calls for pre-entry education and greater due diligence conducted by prospective franchisees.

The Federal Government’s ‘Finding a Balance: Towards Fair Trading in Australia’ [1997] task force addressed, for the first time, education and training in the franchise sector. One of the recommendations made by the task force was:

‘...to raise awareness [to] potential small business entrants of the need to undertake adequate business education prior to committing themselves [and that this campaign should be] coordinated by the Commonwealth Government and delivered by State Territory Governments” [House of Representatives Standing Committee on Industry, Science and Technology, 1997:191]

Recent inquiries into franchising, specifically the Federal Parliament report ‘Opportunity not Opportunism: Improving the conduct in Australian franchising’ [2008] and a Federal Government appointed expert panel report, ‘Strengthening statutory unconscionable conduct and the Franchising Code of Conduct’ report [2010], are specific on the issue of pre-entry education for franchisees.

Such continued recommendations point to the importance of pre-entry education and robust due diligence as core components highly-informed decision-making made by prospective franchisees. As the expert panel determined:

‘...in making a decision to enter the franchise, prospective franchisees need to be armed with whatever information is necessary to be able to undertake their due diligence and to fully appreciate whether it will be possible for them to recoup their investments.” [Expert Panel on behalf of the Department of Innovation, Industry, Science and Research, 2010: xi].

The point is clear, pre-entry education and due diligence for prospective franchisees will produce informed decisions and is the basis for which success will be measured against.

For the purpose of this study, we define informed decision-making as being able to make a confident, well assessed choice that willingly accepts the role, obligations and risk of the opportunity.

The constant message being promoted by the franchise sector is ‘learn about franchising and do your due diligence’ as it leads to informed decision-making, more realistic expectations and assists in minimises potential disputes.

Yet, the extent of pre-entry education and depth of due diligence remains optional with obvious ramifications on informed decision-making.

We decided to take a deeper look into pre-entry education and asked *is pre-entry franchise education the panacea for greater informed decision-making or is it a placebo, with no accountable learning outcomes?*

According to this study, the simple answer is this: pre-entry franchise education is important but it is one part of the total solution for greater informed decision-making by prospective franchisees.

Pre-entry education is not a placebo, nor is it the panacea we seek.

We now turn to a summary of the three key findings of this study.

### **Key Finding One: Effective due diligence relies upon pre-entry franchise education.**

This study determined that solid pre-entry franchise education offers the foundation for more effective due diligence as it ‘...provides a prospective franchisee with an idea of what to look for when conducting due diligence, essential for ensuring that franchisees are going in to business with a full understanding of the risks and opportunities.’

This relies upon the prospective franchisee’s ability to source, analyse, verify and evaluate information which is a sophisticated skill set.

This led to asking the question what should a *formal pre-entry education program need to look like to deliver this expectation?*

### **Key Finding Two: A recommended formal pre-entry franchise education program for prospective franchisees.**

Study participants believe the aim of a formal pre-entry franchise education program should be to assist the prospective franchisee in assessing their motivation and suitability for franchising; develop generic business management competencies, and help the prospective franchisee make highly informed decisions.

Respondents recommended that such a formal program should be delivered predominately through workshops or a blended approach [incorporating workshops, eLearning and self-directed experiences].

Evidence of achievement is essential and would include the presentation of a responsible and realistic business plan, profit plan and risk assessment; a Certificate of Attainment against nationally recognised competencies; and participation in a verbal knowledge and skill assessment or interview.

Study respondents believe that franchisors; prospective franchisee themselves; and educators conducting pre-entry franchise education programs have the greatest responsibility in ensuring that pre-entry education programs are completed and that learning outcomes, knowledge and skills are validated.

It was determined that a formal program would address five competency clusters, being franchising fundamentals; frameworks for self-assessment; creating good business relationships; small business management; and financial management for small business.

Study participants believe that assessment of all of these competency clusters can be incorporated into the franchisor’s recruitment process.

However, some of the most insightful commentary pointed towards the politics, dangerous assumptions and power that influence pre-entry franchise education.

We recognise the many voices attempting to shape pre-entry franchise education, from government inquiries, the membership association, the regulator, franchisors, franchisees, professional service providers and the prospective franchisees themselves.

‘What they [being, prospective franchisees] need to learn’ was a frequently heard phrase during the research period. This is linked to the *dumbing down* of information and how it positions prospective franchisees as empty vessels, ready to be filled with knowledge that the stakeholders of the franchise sector and educational institutions determine to be right and necessary [making dangerous assumptions about culture, learning ability and life experiences]

For, whose truth is it anyway? Who should determine the aim and content of pre-entry franchise education?

To what extent do we present all aspects of franchising, such as factors of franchise failure, causes of conflict and dispute [and to manage these situations] and the impact on family, finance and lifestyle?

Is it assumed that prospective franchisees do not have the ability to conduct adequate pre-entry education, so do we need to force feed them and make it mandatory?

This final question prompted the third key finding of this study.

**Key Finding Three: Mandatory pre-entry franchise education is greatly supported yet intertwined with propaganda.**

71.3% of study respondents said that the completion of pre-entry education be a mandatory requirement before entering into a Franchise Agreement.

Pre-entry franchise education should be “...a standard procedure across the franchise sector. If we take this approach it will eventually become mandatory. I think we just need the correct stepping stones here to be made mandatory before signing [the Franchise Agreement].”

Participants suggested that the stepping stones should be to increase franchise-sector support of pre-entry education and drive participation.

Yet, respondents indicated that perhaps franchisor support of pre-entry education programs may be hampered by a sense of urgency around network growth and a reliance on franchise sale income.

Mandatory pre-entry learning would further slow the process or even place prospective franchisees down alternative business paths. This is best illustrated with this comment, “...the process of taking on a franchisee is already quiet slow, pre-entry education would put off prospective ‘business owners’ from buying a franchise and get them to buy another franchise or a non-regulated business where the risk would be greater.”

Perhaps franchisors are challenged by the possible discovery of truth about the risks and pressures of running a franchise or learning that business ownership is not for them, as “...I am not sure if franchisors will ever want to recommend it because they may fear it will put people off.”

The other elements of propaganda included:

- The concept of educational armament, that prospective franchisees are armed with knowledge so not to be taken advantage of by franchisors and professional service providers. The use of such language perpetuates the perception that conflict is a normal part of the franchisee/franchisor relationship. Another unfortunate consequence is positioning membership associations as an advocate of educational armament which may appear to make comment on the calibre and ethics of their own membership base.
- How prospective franchisees place their faith in pre-entry education, hoping it will make them a more desirable candidate for selection. And that franchisors place their faith in pre-entry education, hoping it delivers on their expectations and helps them defer their educational responsibility to a third party, without validating and authenticating learning outcomes.

We claim that pre-entry education and due diligence are learning processes and, as always, urge stronger alignment to vocational education and training [VET] practices and adult learning principles.

Opportunities for alignment are highlighted throughout the Insight Report, as well as Insight2Action tools and checklists to help implement findings from this study into business practices and procedures.

## Research approach and participant profile

**One thousand, one hundred and ninety seven participants share their thoughts on pre-entry franchise education and due diligence.**

During the period May to November 2010, the following surveys were conducted:

- Online survey that was freely available to all stakeholders of the international franchise community,
- Exclusive online survey issued to every visitor of Diversified’s Franchising & Business Opportunities exhibition around Australia, and
- Exclusive paper-based survey made available to every participant of the Franchise Relationships Institute’s national series of Field Manager Summits.

Table 1 outlines total participant numbers.

Table 2 identifies study participant location.

Participant data and stories are predominately Australian-centric and reflect the successes and opportunities of pre-entry education and due diligence in a regulated environment.

Table 3 illustrates the role currently being held by survey participants, excluding prospective franchisees. The current franchisees who contributed to the study have an average 7.5-years as an operating franchisee, which mirrors the Australian franchise sector average being 7-years [Griffith University, 2010]

Prospective franchisees, visitors to the Australian Franchising & Business Opportunities expo	1106
General global online survey	50
Respondents to the Australian Field Manager Summit exclusive survey	41
<b>Total respondents</b>	<b>1197</b>

Table 1: Study participant numbers

Australia	88.0%
Africa & Middle East	5.5%
North America	2.1%
New Zealand	1.1%
Undisclosed	3.3%

Table 2: Study participant location [all participants]

Franchisor: Operations Manager or Field Manager	47.3%
Franchisee [combined single and multi-unit operators]	14.2%
Franchisor: Chief Executive Officer, Manager Director, General Manager	21.1%
Professional Advisor, Service Provider or Consultant	12.1%
Franchisor: Chief Operating Officer or National Operations Manager	3.3%
Franchisor: Training Manager	2.2%
Franchisor: Franchise Recruitment Manager	2.2%
Undisclosed	6.6%

Table 3: Role profile of the 91 study participants [excluding prospective franchisees]

The classification of franchise systems [as in Table 4] has been determined in consultation with franchise commentators, leaders and practitioners with reference to the Griffith University [2010] Franchising Australia report.

Established Franchise System: 51-299 units [including company owned units] and/or franchising less than 6-14 years.	22.0%
Professional services or consulting firms	16.5%
Large and/or Mature Franchise System: 300+ units [including company owned units] and/or franchising 15+ years	11.0%
New and/or Emerging Franchise System: under 50 units [including company owned units] and/or franchising for less than 5 years.	5.5%
Undisclosed	45.0%

Table 4: Study participant organisation profile [excluding prospective franchisees]

These results should be taken into account when reviewing this Insight Report.

Participant comments have not been manipulated in any way, other than from grammatical editing and censoring any information that might indicate their location, business or themselves.

The limitations of this study lie with participant numbers and their role. The study would have further benefited from a greater balanced view point with equitable representation across all organisational types and roles.

The study complied with the standards outlined in the National Statement on Ethical Conduct in Human Research and the National Privacy Principles, Schedule 3 of the Privacy Act 1988 [Cth]

## Insight Report

**The vision for our Insight Program is to inform business practices so workplace learning can fly high.**

Corven's regular Insight Program is a qualitative research initiative that explores workplace learning and education practices in different organisational contexts.

We view education as "... the act or process of acquiring knowledge, developing the powers of reasoning and judgment, and generally preparing oneself intellectually for life" and learning as the manifestation of education, how the individual has refined their behaviour and ability through practice, training and life experiences.

Corven's philosophy of education and learning is best illustrated in this borrowed statement from Herbert Spencer "...the great aim of education is not knowledge, but action." It is what we do with our educational insight that is the critical outcome.

We define insight as that moment when you suddenly come to understand a complex situation.

The full Insight Report:

- Contains the research data and stories from participants from our online surveys, interviews and discussion forums.
- Includes our commentary on what we believe the problems to be; why they could be occurring and what we are prepared to forgive
- Has a set of Insight2Action checklists and assessment tools, giving you the opportunity to apply our research findings into practice. These will also be provided in soft-copy format.

The contents of the Insight Report include:

- **Key finding one**  
*Pre-entry education versus due diligence*  
*Which one is more powerful?*
- **Key finding two**  
*What they need to learn...*  
*The politics of who should*  
*Recommended aim of pre-entry education*  
*Evidence of achievement*  
*Who's responsible?*  
*Recommended program content*  
*Recommended program format*  
*Current Australian pre-entry programs*
- **Key finding three**  
*A word on informed decision making*  
*Pre-entry education and informed decisions*  
*Make it mandatory?*  
*The challenges of making it a reality*  
*The propaganda of pre-entry education*
- **Summary**
- **References and further reading**

To purchase your copy of the full Insight Report for this study, contact Corven on 1800 65 15 45 [Australia] or [community@corven.com.au](mailto:community@corven.com.au)

# Corven

Our vision is to inform and influence practices that makes workplace learning fly high.

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