Ground Floor Opportunities: The Pros and Cons of Getting in The Game Early in New or Distant Markets

By David E. Omholt, CFE

So you are in the hunt for a franchise, are you? Well, one of your first struggles might be not knowing where to start or even if you should start down this maze of options. Some of the early-on decisions you will need to make to 'get into the right neighborhood...and eventually onto the right doorstep' will be to determine your unique buyer values. These are critical 'wish list' items of what you would deem your ideal business model.

For example, do you want a business that prospects to other businesses as their main clientele (B2B) or the retail consumer (B2C)? How about a service-based business versus a product-based one? What color collar employees – or do you even want employees? Home-based or Retail storefront? Your ideal investment level? The list of initial decisions goes on and on and on. However, one of the more critical considerations I believe one must make is deciding on how mature of a brand you want to pursue and its current market penetration (aka footprint) in your target area.

While there are clear merits in pursuing a more mature franchise with strong brand equity and household name recognition, frankly, I have always believed in the superior attractiveness and strong upside potential of ground floor opportunities – those concepts that are younger (at least in terms of franchising their business) and have more geographic 'white space' (ie, open territory). Still, too many people shy away from these emerging brands.

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If you are comfortable bringing a 'young' franchise to your market, you are advised to conduct thorough due diligence. You must make sure the franchisor can demonstrate it's fully prepared to enter your market and truly understands all the local nuances. In the absence of a local track record, and no local brand recognition to speak of, you will need to make an objective assessment of whether the concept will succeed where the franchisor has no 'batting average'.

Achieving Scale Closer to Home Base

The most successful franchisors enter markets with very deliberate timing and a well-designed implementation plan. These plans involve thorough research of franchise expansion options and 'geo-targeting' based on forecasted opportunity and the level of existing competition. Most franchisors elect to enter new markets that are closer to their home base/headquarters, growing outward in concentric circles. For example, a Texas-based franchisor may begin its expansion in Oklahoma, Louisiana, Arkansas or New Mexico, before moving further out.

There are a number of reasons for this, of course. For one, it is less expensive and more efficient for a franchisor to train and support franchisees in markets close to its existing operations base. This strategy gives you – their franchisee partner–a better chance of success, and, ultimately, results in improved results for all involved. The franchisor is truly vested in your success and gains nothing if you fail or underperform.

Also, in these scenarios, logistical and supply-chain issues will require less re-engineering. In fact, leveraging off existing suppliers can help improve your franchisor's purchasing costs, savings that can be passed on to you. The real estate and construction processes are also simplified, for similar reasons. Most importantly for you, the brand will likely have more recognition among potential customers, giving you a running start when promoting your new business to customers.

Near or Far from Home Base... Critical Components Must Be in Place

Of course, this does not mean you should write off franchisors seeking to expand into further flung markets. For example, in highly competitive areas, a franchisor might simply be looking for the right franchisee to make its first foray into the market. However, be wary of franchisors that are too eager to sign you on the dotted line. The franchisor needs to conduct the same assessment of the market and your qualifications as it would if it were adding a location in an established area. In any market, new or established, an unsuccessful franchisee can sink a franchise program—and rushing into a bad situation can spell disaster for you, as well.

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Before agreeing to be the first franchisee in a remote market, you must ensure the franchisor can properly support a franchise and you will not feel orphaned. This will depend, of course, on the type of franchise system. For example, a web-based professional services business is easier to support remotely than a quick- or full-service restaurant (QSR or FSR).

You should also inquire about the logistics of delivery and supply to your prospective franchised business. For example, is the franchise based around products that are locally sourced or are there national suppliers that can provide crucial supplies? Are the products and services necessary for the business? So unique that a substitute is not appropriate?

Also, before you decide to join the franchisor in its expansion plans, you will need to ensure that a localized marketing plan is in place. Locally-irrelevant marketing materials will damage your credibility as the new franchise in town, even more so than if you had no marketing materials at all. Remember, you are about to invest your life savings in a business that your market has never seen before, with no track record in the area. The franchisor's marketing tools and materials need to convey the credibility that has not yet been established in your market.

YOU are the #1 Variable to Your Success...So Know Thyself

While you must rely on your franchisor for help in all of these matters, the ultimate success of your franchise will have a strong correlation to your efforts (or lack thereof). As a prospective 'franchipreneur', you must also be willing to assume the many responsibilities of launching a brand in a new or distant market.

First, evaluate your own strengths and weaknesses as objectively as possible. Also, do not take the franchisor's information at face value. Trust but verify everything and examine all the factors that might impact the brand's success in the market you call home. These can include demographics, climate, competitors, culture and local customs. Speak with current franchisees (if any yet) to ensure the support the franchisor promises will be there when it really counts.

A large part of your responsibilities as a first-to-market franchisee will involve promoting the new concept and creating local brand awareness. Remember that the appeal of 'newness' can be a selling point in and of itself. It can also be very rewarding to be a 'founding father' of the brand, to take a concept that has worked well elsewhere and be the first to pioneer it in a new environment. As a prospective franchisee in this situation, you need to embrace this challenge. Remember, though, you will still have the franchisor to back you up.

The first franchisees in a new market tend to have a slightly different profile than franchisees in an established market. Franchisors will likely be looking for someone who is significantly more risk-tolerant than typical franchisees.

Being the first franchise in a new market can bring great rewards.

To minimize its risk and yours, the franchisor will also look for candidates at the top end of its financial qualification range, and for franchisees with particularly strong work experience.

While there are extra hurdles to overcome, being the first franchisee in a new market can also bring great rewards. For instance, by getting in on 'the ground floor,' you may be able to secure a prime territory, the best possible locations and some extra TLC from your franchisor. After all, your franchise is the first in what is likely a long-term expansion strategy; as such, home office will be very invested in your success to ensure future expansion is possible.

Bottom line, they can't afford for you to be anything other than wildly successful.