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New Mexico Businesses Start Big with Franchise Ambitions

By Finance New Mexico

Multinational franchises like McDonald's and KFC started small and worked their way up the food chain over decades. That methodical approach to growth seems too slow for the owners of two Albuquerque businesses.

Before Olo Yogurt Studio opened its first store in 2010 and WisePies served its first pizza in 2014, the owners of both ventures planned to become franchises — and to waste no time doing it.

Olo Yogurt opened a second store — a carbon copy of its colorful original — within three years and was strengthening its brand for further expansion. WisePies was less than a year old when it announced its intentions to open 20 new stores within a year and to offer franchise licenses for $35,000. In December, the company signed a $5 million deal for naming rights to the University of New Mexico "Pit" — now the WisePies Arena.

The franchise or chain-store model isn't the only way for a business to grow, but its appeal is obvious. A franchisor can recruit talented go-getters who want to run a business with a built-in market, name recognition and institutional support. And they can do it without draining their capital budgets, as franchisees typically pay much of their own startup costs.

The franchise model increases the business's revenue exponentially and quickly — and for lots less money than the franchisor would pay to open and run numerous stores on its own. The franchisor gets a royalty and other ongoing fees — say, for advertising — from individual stores in return for letting the franchisee use its marketing and operating strategies and brand name.

The franchisee receives other benefits besides branding and advertising. Franchise contracts differ, but the franchisor usually trains the franchisee in store management and provides ongoing support and bulk rates on franchise-specific supplies and goods. Some franchises build the store's exterior — especially when the building is essential to brand recognition — and leave the interior setup to the franchisee.

Benefits aside, franchises aren't fiefdoms, and the franchisee isn't an employee who can be ordered around. Franchisees own their stores and have significant autonomy: They can't be forced, for example, to introduce a new product unless the contract says they must. If they stray from the established business model, they could founder and harm the image, brand and profits of the parent company.

A business in a hurry to open might compromise on site selection, for example, and pick a poor location. A franchisor might over-saturate the market, forcing franchisees to compete against each other. And when franchisees fail, it ripples back to the parent company, with devastating consequences.

That's one reason why franchisors and franchisees sometimes find it difficult to obtain a loan from a traditional lender. Before undertaking rapid replication through franchising, a business owner should talk to an attorney and a banker with expertise in this field. Accion, The Loan Fund and WESST are New Mexico nonprofit lenders with experience lending to franchise businesses. Visit http://financenewmexico.org/category/funding/loans-funding/ for more information.

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