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Franchising: Choose wisely

Singapore Management University

FRANCHISING: CHOOSE WISELY

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The Modern Montessori International chain of preschool education centres expanded into 15 countries within 20 years via franchising. Its owner shares the sometimes painful lessons learnt

Modern Montessori International Group (MMI), a preschool education company, currently operates in 15 countries across Asia, parts of Africa and its place of birth, Britain. Singaporean **T. Chandroo** was offered an MMI franchise on the island state in 1996, bought into the principal company and eventually owned all of it, and built the brand by franchising.

Chandroo has expanded the business to over 100 MMI locations worldwide, but there is only one MMI centre in the whole of China.

"I bought into a business in Haikou, Hainan about five years ago," Chandroo recalled at the recent SMU KwanPEN-Institute of Innovation & Entrepreneurship talk, *Franchising as a mode of entry into new markets*. "We paid about a million RMB for a centre which had 400 students. They were paying at that time 2,800 RMB (approximately US$400) per month – good revenue. I raised the fees to 4,000 RMB to recoup the investment on renovations, new equipment and training the teachers.

"In China, if you are a foreigner, you need to have local legal representative. The legal rep happens to be the friend of the wife of one of my partners. Before the start of the business, we gave her a 20 percent free share to get her to help us run the business. She became too greedy – she took the business away. As the legal rep, you have the absolute right to the business. The rubber stamp of the company has weight, overriding the investors."

Chandroo took the case to court but the three-judge panel ruled in the legal representative's favour. "At the end of the day, I paid a large sum in tuition fees: about 2 million dollars. Since that bitter experience, I receive almost every other day enquiries in China to take our brand. I'm still not convinced [about going back into China]."

Choosing a franchisee...

That experience has made him more cautious about doing business in China, but in general those looking to take up an MMI franchise face a screening process which is not just for the franchisor's benefit.

"We normally do an interview with a potential franchisee to evaluate their financial standing and their capability," Chandroo explains. "We're not talking just about the upfront fees of S$100,000 (approximately US$75,000) [for a Singaporean single-unit franchise] but also their holding power. In light of the three- to five-year gestation period for pre-school centres today, we're looking at a minimum of a million dollars.

"You need to find a big place and a long-term lease. If you take a bungalow house you are looking at a monthly outlay of $20,000 to $25,000, and you need to renovate the place for about $300,000. Then you have to sort out your fire safety certification and other regulatory requirements. On top of that, you have to pay for teachers and the principal and their training, all before you even start business.

"All this comes down to your financial strength. We are upfront about all this. We'll tell you what the financial commitment is likely to be."

Once the relevant authorities issue the licence to run a childcare centre, Chandroo elaborates, it would take about a year before the business generates substantial momentum and revenue. If all goes well, a franchisee is well on his or her way to a profitable business via autopilot. Or is he?

"You've started a franchise, endured a long gestation period, your ROI (return on investment) starts coming in, and your landlord says, 'I want to increase your rent', which is fine," Chandroo elaborates. "What if he says, 'I want the place back'? That happened to me. But that's business. You may have developed the place, and the landlord knows the place now commands a premium, he might do something like that. You must factor all that in."

...and a franchisor

For those with the stomach and financial muscle, a franchise to a well-known and successful brand may sound like a surefire way to make money. Chandroo advises potential franchisees to choose their franchisors carefully, and read the fine print.

"In the franchise agreement, if they say the agreement is for ten years, what happens after the tenth year when your agreement expires?" Chandroo points out. "Are you able to continue? Most of the time you can. But in the agreement, the franchisor may specify that after the tenure expires, you are required to pay another upfront fee. Most franchisors do not do that but you do need to be careful.

"Also, check on the exclusivity of the franchise, especially on locations. Make sure the location is given to you and you do not have another franchisee close to you. Additionally, you want to make sure you can assign the franchise. Sometimes, maybe after five years you may want to retire and sell off the business. Most of the time you can sell back to the franchisor."

While all that is crucial to a franchisee's success, Chandroo urges the need to manage the one aspect that often gets lost in the business process: expectations.

"Most of the time, inexperienced businesspeople have such high expectations when they get an established brand," Chandroo explains. "There is a learning curve. It all depends on your experience, exposure and willingness to work hard.

"Don't expect overnight success just because you've got the franchise for a successful brand.