

# Franchising – is it for me?

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# Agenda

- 1. What is franchising/history and reputation/types of franchises
- 2. Size of market in UK
- 3. Importance to UK economy
- 4. Franchisors and Franchisees – What is the difference?
- 5. Legal agreements and responsibilities to one another. (5/10 yr term)(duty of care)
- 6. Franchise fee structures – examples of. (Up front fee and ongoing royalty fee) What are these fees for?
- 7. What do I get if I buy a franchise? Benefits? Investment/active involvement/stock etc
- 8. What is in it for franchisors?
- 9. Why franchise a business in the first place? What are the benefits/opportunities to the franchisor?
- 10. Relationships between franchisors and franchisees – frosty?
- 11. Important things to consider when buying a franchise (location, size of market etc)
- 12. My experience as a franchisor, as an Area manager, Recruitment manager and marketing manager
- 13. My experience as a franchisee/licensee – what is the difference?
- 14. Importance of selling franchises for profits (50%-75% can come from this). How are franchises marketed? Budget allocation? Move to internet etc
- 15. Franchise bodies – BFA
- 16. International franchising (my experience in Ireland/Spain/France) Implications
- 17. Future of franchising – figures show continued growth although there are more franchisors and fewer franchisees in 07 compared to 06
- 18. Q&A

# What is franchising?

- **The EFF description:** “Franchising is a system of marketing goods and / or services and / or technology, which is **based upon a close and ongoing collaboration** between legally and financially separate and independent undertakings, The Franchisor and its Individual Franchisees, whereby the Franchisor grants its individual franchisees **the right, and imposes the obligation, to conduct a business in accordance with the Franchisor’s concept**. The right entitles and compels the individual Franchisee, in exchange for a direct or indirect financial consideration, to **use the Franchisor’s trade name, and / or mark and / or service mark, know-how, business and technical methods, procedural system,** and other industrial and / or property rights, supported by continual provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose.”

# There's more to franchising than fast food!

- 759 active franchise systems operating in the UK
- Pretty much every type of business opportunity (man in van, retail, white collar)
- In 2006, 92 per cent of all franchisees reported profitability
- 86% of franchisors say that expectations for their business will improve in the next 12 months (source BFA/NatWest survey 2006)

# Latest NatWest/BFA Survey

- Financial failure rate in 2005 was 0.9%
- Overall leavers including resale's, retirement, ill health was circa 8%
- Comparative figure for independent businesses is 20%
- You are far more likely to be successful as a franchisee

# Importance to UK economy

- Worth £11 billion to UK economy
- Employs 360,000
- UK entrepreneurial 'spirit'
- Brown: "want us to build on our advantages - a talent for innovation"

# Why choose franchising?

- You don't have to come up with a new idea - someone else has had it and tested it, too!
- Larger, well-established franchise operations will often have national advertising campaigns and a solid trading name
- Good franchisors will offer comprehensive training programmes in sales and indeed all business skills.
- Good franchisors can also help secure funding for your investment as well as e.g. discounted bulk-buy supplies for outlets when you are in operation
- If aware that you are running a franchise, customers will also understand that you will be offering the best possible value for money and service - although you run your 'own show', you are part of a much larger organisation.

(source: [www.thebfa.org](http://www.thebfa.org))

# Why do people leave their employers?

- Personal development
- Greater recognition
- More responsibility
- More money, better package

# Employed

- Salary, bonus, pension, car
- Colleagues
- Lack of control, poor promotion prospects within same company
- Location, colleagues, boss

# Self employed

- More control
- Less political
- Greater flexibility
  
- Funding
- Cash flow - feast and famine
- Can be lonely

# Why should I choose franchising over self-employment

- Work life balance
- Financial reward
- Life Style
- Stability
- Personal and professional development

# What should I look for in a franchise?

- A proven business history
- Recognised brand
- Sales and Marketing
- Effective training
- Like minded colleagues
- Open to questioning
- Access to practising Franchisees
- A thorough interview process
- Value for money?
- BFA member?

# What is the process one goes through to become a franchisee?

- Due diligence
- Shows
- Magazines
- Web
- Meetings with franchisors
- Funding
- Exchange agreements
- Training
- Start-up

# How do franchisors recruit?

- 50%+ of turnover can come directly from recruitment
- Major part of a franchise business
- Web transformed the way recruitment is handled
- Most enquiries come from web
- Shows and recruitment events

# Franchisors & Franchisees – a mutually beneficial relationship...

## **Franchisors:**

Provide franchisees with an established method of operation, training, systems expertise, marketing and easily identifiable brand images

## **Franchisees:**

Provide Franchisors with initial franchise fees and continuing royalty fees. These fees provide the necessary capital for the system to expand and improve.

# Agreements and Responsibilities

- Legal Agreement
- Term (5yr/10yr)
- Pretty standard – guidelines provided by BFA ([www.thebfa.org](http://www.thebfa.org))
- Duty of care
- Operate within certain constraints – to protect & strengthen brand and have consistency

# Financials

- Initial start-up fee
- On-going royalty fee
- Kumon vs. Auditel
- Funding available: HSBC, NatWest etc.  
(potentially 75%+ of start-up)
- Business Plan

# What do I get for my fees?

- Training
- Know-how
- Access to materials, stock
- The Brand
- Marketing campaigns
- On-going support and development inc personal development
- Development of the franchise model – introduction of new services, products or offerings.

# Turned down!

- It does happen!
- Insufficient capital
- Lack of experience in sector
- Lack of business acumen
- Attitude at interview
- Lack of enthusiasm
- Lack of sales and marketing experience
- Poor credit history

# Boost your chances of success

- Knowledge of the industry sector
- Sales and Marketing experience
- Self motivated
- Financially aware
- Hard worker
- Hands on
- Age not a factor – trend getting younger
- Women in franchising
- 65% employed prior to taking on a franchise

# What is in it for the franchisors?

- Easy and quick market penetration
- Cost effective
- Success often gauged in sales of franchises and not their performance (much of the annual budget will go towards franchise recruitment)
- Why not earn more from your business system and let others benefit

# Is my business fit for franchising?

- Must have operated a business concept with success for a reasonable time in at least one pilot unit before starting a franchise network
- Must be the owner or have legal rights to the use of the network's trade name, trade marks or other distinguishing identification

(source: BFA)

# Reasons why franchisors fail...

- Inadequate pilot testing
- Poorly structured system
- An under capitalised franchisor
- Poor selection of franchisees
- The franchisor is a poor business person and does not run their own business properly

(source BFA)

# Barriers to growth in franchised units in UK

- Lack of suitable franchisees
- Lack of suitable sites for franchisees
- Lack of available franchise areas
- Poor economic conditions generally
- Red tape/bureaucracy
- Lack of investment/financial backing
- Competition from similar franchises
- Static/declining marketplace
- Wish to expand steadily/slowly

(source BFA)

# Barriers to growth in franchised units outside UK

- Language barrier
- Legislation
- Lack of suitable franchisees
- Recruitment / suitable managers
- EU regulations
- Cultural barriers
- Control problems
- Lack of finance
- Lack of demand for product or service

(source BFA)

# Territories

- Highly contentious
- Competition
- Market
- Profiling (CACI/Insite) using ACORN

# Franchise re-sales

- Build capital value (solid client base)
- Often success down to individual franchisee
- Buyer can be reassured that the business is a success
- Handover (seamless)
- Involve the incoming franchisee at the earliest possible opportunity so become familiar with clients and method of operation.
- No sudden changes!
- Fee (calculated in anticipated earnings, often 2yrs)

# Dispute resolution

- Common 'issues'
- Fines
- Reasonable time to remedy
- Termination – repetitive breaches

# Me!

- Kumon
- Area Manager
- Franchise Recruitment Manager
- Auditel
- Marketing and Recruitment Manager
- Licensee (Bristol based)
- BFA seminars
- Marketing Agency

# Further information:

- [www.thebfa.org](http://www.thebfa.org)
- [www.auditel.net](http://www.auditel.net)
- [www.kumon.co.uk](http://www.kumon.co.uk)
- [www.writeidentity.co.uk](http://www.writeidentity.co.uk)

Thank you!

Any Questions?