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Chartered Accountants

[FACTSHEET]

Franchising

Franchising is a flourishing industry boasting nearly 1,000 brands in a multitude of different sectors. The business community now takes franchising very seriously and the industry consistently shows 90% of franchisees reporting profitability. The advantages of owning your own business are obvious but so too are the risks. The franchisee is taking less of a risk than starting his or her own business and less than 4% of franchises fail for commercial reasons. This is because they are operating under an established and proven business model and supplying or producing a tested brand name.

Franchising is essentially the permission given by one person, the franchisor, to another person, the franchisee, to use the franchisor's name, trademarks and business system in return for an initial payment and further regular payments.

Each business outlet is owned and managed by the franchisee. However, the franchisor retains control over the way in which products and services are marketed and sold, and controls the quality and standards of the business.

The advantages and disadvantages

Advantages

These include:

- it is your own business
- someone else has already had the bright idea and tested it too
- there will often be a familiar brand name which should have existing customer loyalty
- there may be a national advertising campaign
- some franchisors offer training in selling and other business skills
- some franchisors may be able to help secure funding for your investment as well as discounted bulk buy supplies.

Disadvantages

The potential disadvantages include the following:

- it is not always easy to evaluate the quality of a franchise especially if it is relatively new
- extensive enquiries may be required to ensure a franchise is strong
- part of your annual profits will have to be paid to the franchisor by way of fee
- the rights of the franchisor, for example to inspect your premises and records and dictate certain methods of operation, may seem restrictive
- should the franchisor fail to maintain the brand name or meet other commitments there may be very little you can do about it.

The costs

The franchisor receives an initial fee from the franchisee together with on-going management service fees. These will be based on a percentage of annual turnover or mark-ups on supplies and can vary enormously from business to business. In return, the franchisor has an obligation to support the franchise network with training, product development, advertising, promotional activities and a specialist range of management services.

Financing costs

Raising money to finance the purchase of a franchise is just like raising money to start any business. All of the major banks have specialist franchise departments. You may need to watch out for hidden costs of financing. These could arise if the franchisor obtains a commission on introducing you to a business providing finance or a leasing company for example. Of course these only represent true costs if you could have obtained the finance cheaper elsewhere.

Choosing a franchise

Factors to consider

There are many factors you may need to take into account when choosing a franchise. Consider the following:

- your own strengths and weaknesses - make sure they are compatible with the franchise
- thoroughly investigate the business you are planning to buy
- research the local competition and make sure there is room for your business
- give legal contracts careful consideration
- last but not least, talk to us about the financial projections for the business - cash flow, working capital needs and profit projections will form the core of your business plan.

Finding a franchise

The British Franchise Association (BFA) is likely to be a sensible starting point.

The official online partner of the BFA is whichfranchise.com which lists the latest BFA approved franchises.

A directory of all franchises available in the UK is available at theukfranchisedirectory.net/

Having narrowed down your choice, you will then need to think about contacting a shortlist of probably five or six franchise companies asking them for further details. This should include projections of the likely level of business as well as a draft contract.

If the franchise is a good one there are likely to be a number of applicants. You will need to sell yourself as the ideal applicant to the franchisor which will include providing references as well as putting forward a strong case as to your suitability as a franchisee.

The contract

The contract will form the basis of all franchise agreements. It should ensure that you run your business along the lines set out by the franchisor. The following areas should be covered:

- the name and nature of the business
- the geographical territory where the franchisee can use the name
- how long the franchise will run
- the fees (both initial and on-going) that will be charged
- what happens if the franchisee wants to sell or either the franchisee or franchisor want to end the agreement
- the terms of the relationship, specifically that the franchisor will provide training, advertising etc and that the franchisee will abide by the rules laid down by the franchisor.

How we can help

The franchising industry claims to be able to help you start a new business with a much greater than average chance of survival. Statistics seem to back this up and suggest that a franchised business has a much better chance of surviving the first three 'danger' years than other new businesses.

However you don't get something for nothing and we can help you to look critically at the costs of entering into a franchise. We can also help with the all important business plan, including cash flow, working capital needs and profit projections. We can also provide independent advice on the forecasts given by the franchisor and help you determine how realistic they are. Contact us to find out more.

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