

Franchising Your Business

KEY CONSIDERATIONS

If you are thinking about developing your business as a franchise, it is worth spending a few minutes to consider the following points. This is not intended as a "go/no go" checklist because there are so many variables that are specific to your particular business and I will be happy to talk these through with you.

Suitability of the Business

Not all businesses are suitable for franchise development. Critical factors to consider are your own personal aims and objectives together with your ability and will to manage a very different type of business.

Can the skills and experience that you have be transferred to other people?

Is your business producing a 50% gross profit and is there sufficient margin in the product or service for a franchisee to make a reasonable living at realistic sales volumes?

There are no fixed rules about the size a business must be or the length of time that it has been trading before it can develop as a franchise. Speed of development may sometimes be important if a competitor is threatening, but usually a franchisee expects to see some successful previous business history and evidence that the franchise is likely to work. As an approximate guide, three years accounts will be desirable.

The Benefits of Developing as a Franchise

Franchising is an attractive means of rapidly expanding a business without the need for much capital. Franchisees will invest their own money into their business and are likely to be more committed to success than an employee. The franchisor is developing a committed distribution team but will usually have to sacrifice margin for volume.

Companies that develop as a franchise have to pay very close attention to their own business processes, documenting all systems, methods and procedures. This is akin to the work required to achieve a quality accreditation and often helps to reshape the franchisor's core business.

The Downside

Franchisors run the risk of losing control of their franchisees and possibly their business unless they are properly organised to give support to the franchisees. Not all businesses are suitable for franchising and careful consideration needs to be given to the product or service in relation to how well franchisees can be trained and trusted to represent the franchised business.

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Life as a Franchisor

There is a separate section on recruiting franchisees and, right from the beginning, the relationship between franchisor and franchisee differs significantly from that between employer and employee. A franchisee is usually someone who wants the security of knowing that the business that they will be going into has a strong chance of success but has decided not to set up in business entirely on their own or get another job. (Many people buying a franchise today will have been made redundant). They fall between the entrepreneur and the employee.

A franchisor has to manage by consent and after an initial period in which a new franchisee is like a new employee, they may start to find fault with the system, consider some promises unfulfilled and begin to assert themselves sometimes in collusion with other franchisees. A franchisor needs to be alert to this phenomenon known as the franchise curve and ensure that the franchisees are kept interested with a high level of support and introduction of new products and services.

Being a franchisor often requires specialist training and coaching support is available to support this need.

Corporate Image

A strong corporate image which will become easily recognised is generally considered to be important if a franchise network is to be of benefit to your franchisees. They will also expect that, if you have a trademark, it is registered with The Patent Office.

Legal Agreement

A bespoke franchise agreement is essential for each business that is to be franchised. It is advisable to use a solicitor who is respected within franchising and acknowledged to be a leading expert in the preparation of sound and fair franchise agreements. The small additional cost of using the best legal advice will pay dividends in later years if anything should go wrong and will be of considerable help to you in the early days when establishing credibility and British Franchise Association clearance to attend specialist franchise exhibitions as an exhibitor.

A franchise agreement differs from conventional contracts in that it is a three way agreement between the franchisor and franchisee, but also an agreement between all of the franchisees in the business. The acts or omissions of any one franchisee can affect the others' business.

Franchise agreements normally run for 5 - 7 years and are usually renewable without charge, although the form of a new agreement may differ from the original.

Financial Matters

Potential franchisees will normally expect to see a good set of accounts for the franchisor's business. It is quite likely that your accounts will involve trading activity that may not be included in the franchise package and certificated income for the franchised products or services may be required instead.

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A business that is producing a gross profit of less than 50% is not normally suitable to franchise although there will always be exceptions, particularly where absolute gross profit is high and operating overheads are low.

A three year trading, profit & loss projection and cash flow for the franchisee and franchisor is essential and should reflect conservative growth. The first franchisees must feel that they are beating the objectives of the business plan so that they can tell others how good it is.

The franchisor too must produce a detailed cash flow forecast allowing for slow initial growth of the franchised business to ensure that there is adequate cash provision.

Test Marketing

The product or service to be offered must be thoroughly test marketed, preferably with a pilot franchise and an independent franchisee over a minimum of twelve months. Something that works in one part of this country may fail in another and even greater care needs to be taken if the franchise is being imported from overseas.

Defining Operating Areas

Postcodes, Yellow Pages areas and County Boundaries all provide easily defined geographical areas of operation. However, research must be carried out to define an area that will support the franchise business. This may be expressed in terms of number of households; number of people; number of businesses; number of a particular type of business; number of cars, farms shops etc.

The Franchise Package

The franchise package should contain a fair amount of initial stock, training, manuals, accounting system and stationery. Unless a specific vehicle is specified for the operation, there is little point in including this as part of the franchise package as people will have personal preferences. Similarly, there is little point in inflating the cost of the franchise package with items that people are likely to already have such as a mobile phone or a lap top.

It should not be the intention of the Franchisor to make a profit out of the sale of the franchise but rather on the ongoing supply of product or service. Accordingly all items included in the package should be priced at a level, or lower, than can be obtained by the franchisee elsewhere. The only exception to this is the franchise fee which will be a function of perceived value and likely derived value from buying the franchisors' " know how", any intellectual property and use of the trade mark.

Selecting Franchisees

Franchisees often make the mistake of believing that they are buying a business. A business has customers and a new start franchise generally does not. Selling a franchise area is a fairly unique experience. You need to exercise the same care in the selection of a franchisee that you would in the selection of an employee yet you are asking someone to part with money and buy something from you. A profile of the ideal franchisee needs to be prepared in advance of the recruitment advertising and candidates screened and selected carefully.

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There is always a temptation to take the first person willing to part with their cash, but if the early franchisees are not the right people and are not successful they will act as a deterrent to others considering the franchise and the business will fail to grow beyond four or five franchisees.

Management Fees

The franchisor will derive income from the franchisees by making a profit on the goods or services that the franchisee is obliged by the agreement to purchase from the franchisor. If this is not possible because, for example, the franchisee does not have to buy stock or a service from the franchisor, the franchisor may charge a management fee which is usually expressed as a percentage of turnover. The amount will vary according to the business. It is not usual for a franchisor to make a profit on the provision of goods or services AND charge a management fee.

It is worth considering the introduction of an advertising levy to be used solely for the overall promotion of the business. This is usually held in a separately audited bank account.

Brand Protection

Franchisees are buying your brand and it is recommended that you protect your brand by applying to the Patent Office for a trade mark to cover your business name and logo in your chosen market sectors

Company Structure

It is advisable to establish a separate limited company as a vehicle for franchising. The scope for things to go wrong warrants the additional protection and separation of the franchisors original core business from the franchise operation.

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A COMPLETE SUPPORT SERVICE

Business format franchising is a proven marketing method that enables you to expand your business quickly with the minimum outlay of capital and build a valuable company.

By increasing market share more rapidly than by organic growth, you will make it more difficult for other companies to compete effectively and because your franchisees have put their own capital into the business, they have more motivation to succeed than salaried managers.

It is not a get rich quick scheme however, and we have developed a complete assistance package beginning with an objective assessment of the suitability of your business to develop through franchising and leading to the pre appointment selection of suitable franchisees and ongoing support.

In between, we ensure minimum disruption to your business and act as your franchise department until you are sufficiently developed to take over the management of your rapidly growing business with your own team.

We take a long term view of any franchise development project and time spent on the initial preparation of the business prior to the launch of the first franchise is critical to future success.

Our service includes:-

- * Assessment of suitability to franchise.
- * Design of suitable business format franchise.
- * Detailed business plans and cash flow projections for your franchisees.
- * Preparation of the franchise prospectus.
- * Design and strategic placement of advertising.
- * Public and press relations.
- * Definition of franchise territories.
- * Preparation of brief for legal agreement.
- * Guidance on preparation of franchise manual.
- * Selection of suitable franchisees to shortlist.
- * Assistance with raising capital for franchisees.
- * Presentations of plans to major banks.

We offer a variety of flexible fee structures to suit your needs and pace of development.

FRANCHISE DEVELOPMENT SERVICE

- COMPREHENSIVE CONSULTANCY AND CONTINUING SUPPORT

Most people developing their business into a business format franchise, have insufficient time to continue to run their business and manage the development of franchising.

We offer a flexible range of services to meet your needs and an equally flexible fees policy to ensure that you only pay for what you want and some of this can be based on results.

We have a range of service providers including solicitors, printers, designers, advertising publications and whilst we will be pleased to recommend suppliers who have a reputation for quality and value, you may prefer to use the services of someone that you know.

The areas in which we can offer assistance can be drawn from a menu and is best described in stages.

Stage 1

- Preparation of initial assessment on the suitability of the business for development as a franchise to include:-
 - Draft profit, loss and cash flow forecast.
 - Priced franchise package and recommended selling price.
 - Draft advertising schedule.
 - Solicitor's quotation for preparation of agreement.
 - Proposed format for prospectus.
 - Report on expected results.
 - Prepared budget for franchise development.

Stage 2

- Advice relating to corporate image appropriate to your business as a franchise.
- Design of franchise structure and development plan.
- Preparation of territory definitions.
- Collation of accounting and trading information for presentation.
- Preparation of three year business plan and cash flow forecasts for your franchisees.
- Presentation of business plan to major banks.
- Preparation and copy writing of draft prospectus.
- Preparation and delivery of franchise solicitor's brief.
- Liaison with franchise solicitor to conclusion and delivery of franchise agreement
- Advice relating to press releases and P.R. plans.
- Advice relating to marketing the franchise
- Delivery of franchise manual format and assistance as required.
- Reviews of marketing plan to include subsequent objectives for advertising and P.R.

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Stage 3

- Practical support to recruit franchisees
- Review of business plan projections.
- Review of franchise package and price.
- Continuous support in the development of the franchised business.
- Attendance at franchise meetings and liaison with franchisees as required.

FEES

The following sets out indicative charges for the development of your business as a franchise. A negotiable element of fees is payable in advance and the balance of stage one and stage two fees are payable on completion of each stage. After completion of stage two, we will be happy to discuss a combination of fees and percentage of income for ongoing involvement in stage 3.

Stage 1	Initial Assessment and preparation	£3500.00
Stage 2	Implementation	£6500.00
Stage 3	Franchisee recruitment, continuous development & support Optional fee arrangements	

To help you with some idea of the likely initial costs associated with the development of your business as a franchise, guide price ranges for other services are set out below. We will prepare a more detailed budget for you in stage one.

The cost of design and printing for the prospectus and the manual can vary substantially from around £1000 but you may choose to have just an electronic version at lower cost.

The cost of preparing an effective legal agreement will be typically £5000.

We generally recommend a minimum budget of £5000 for initial promotion although the nature of your business is such that we can identify potential franchisees easily and communicate with them directly at low cost

VAT will be added to our fees