

Franchising

A tried and tested way to start or grow a business

Starting a business sounds appealing, but there's no getting round the fact that it's a big risk – particularly in your later years. Statistics show that the majority of new businesses fail within their first three years, so it's worth considering any option which may reduce that risk and increase the likelihood of success.

For many people, franchising is an attractive way forward. It enables you to benefit from the experience of others and get your business up and running more quickly than starting from scratch. However, it comes at a price and does involve a certain lack of freedom. But if you are contemplating self-employment, it's well worth finding out more before making up your mind.

At the other end of the business spectrum, you may already have a successful business and be wondering if you might be able to develop it further through franchising. Certainly it can be a very profitable way forward for the right sort of businesses with a strong business model to build on. But – doing so isn't that easy. You too probably need to find out more...

What is franchising?

The starting point is understanding exactly what's meant by 'franchising'. The term has been used to describe many different forms of business relationships, including licensing, distributor and agency arrangements. The more accurate use of the term has arisen from the development of what is called 'business format franchising'.

The principle is simple - some companies (franchisors) choose to grow, not by developing in the conventional way, but by granting a licence to others (franchisees) to sell their product or service. This is known as 'Business format franchising' and it entitles the franchisee to trade under the trade mark/trade name of the franchisor. Alongside this they can make use of an entire package comprising all the elements necessary to establish a previously untrained person in the business and to run it with continual assistance on a predetermined basis.

You will pay an initial fee to set up using the brand and the proven business format, and you will pay

continuing fees for the support that will keep you in business earning profits on the trade that you do, and building a capital asset that you can resell.

As the purchaser of a franchise, there are clear advantages to you in this:

- ❑ 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, for example, discounted bulk-buy supplies for outlets when you are in operation.
- ❑ If they are 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.

It's quite surprising when you start to look into it just how many businesses and brands which you may have thought were independently owned or formed part of a 'normal' cohesive company, actually operate as franchises. That underlines the strength of buying into an established brand rather than trying to set up on your own. Potential customers may already know the 'name' and welcome the arrival of a local supplier.

Who is in control of the business?

Each business outlet is owned and operated by the franchisee so it is 'your' business. 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.

What are the cost implications?

There is no doubt that for many businesses taking up a franchise can be a more expensive option than starting up on your own. The franchisor will take an initial fee from the franchisee, payable at the outset, together with on-going management service fees - usually based on a percentage of annual turnover or mark-ups on supplies.

In return, they (the franchisor) have an obligation to support you, as part of the franchise network, notably with training, product development, advertising, promotional activities and with a specialist range of management services.

It goes without saying that you must take independent financial advice before investing. Even something which looks safe, secure and a 'dead cert' should always be checked out.

How can I find out more?

In the UK, your first point of call for finding out more about franchising should be the British Franchise Association (bfa). One of their main jobs is to help potential franchisees recognise the good, the bad, and the ugly franchisors for what they are. Another is to help businesses involved in franchising to secure their own position amongst the "good" operators.

In the early days, franchising was concentrated in a limited number of markets, predominantly fast food, motor distribution and hotels, with a degree of uniformity in each section's structure and operation. Now at least 20 different business sectors are represented from insurance services and hairdressing to quick print and design, and video rental to roof thatching. Each business has its own variety of characteristics and its own pitfalls.

Against this changing background, the bfa has developed standards to ensure that potential franchisees can continue to give credence to bfa accreditation.

This work is not just a philanthropic exercise for reputable and responsible franchisors. It makes good commercial sense. The ability of franchisors to attract potential franchisees to invest in their systems depends crucially on their own reputation, and on the reputation of franchising in general.

What does the bfa do?

The British Franchise Association (bfa) was set up in 1977 as a voluntary self-regulating body for the franchise sector. Since then it has spent 30 years as the voice of franchising in the UK. Part of their

work is involved with ensuring that people investigating franchising spend as much time as they need learning about the industry, the concepts and the ways of evaluating their suitability.

Its aim is to promote good franchising practice in the UK and help the industry develop credibility, influence and favourable circumstance for growth.

Franchisors apply to become bfa members by meeting standards set by the Association, thereby establishing that their franchise represents a fair and ethical opportunity. The bfa also accredits professional advisors including solicitors, accountants, banks, franchise consultants and media, who offer quality advice and services for the franchise industry.

Another vital part of the bfa's work is the educational training they provide to both prospective franchisees and franchisors. They produce numerous publications on franchising, including comprehensive guides for Franchisees and Franchisors and also hold regular educational seminars and exhibitions throughout the country.

In 2007 the bfa also launched a new broadband TV channel dedicated to franchising! The channel is viewable on any PC with a broadband connection at <http://www.franchise success.tv/>

It enables prospective franchisees to:

- ❑ view videos by franchisors
- ❑ watch fortnightly news programmes of the latest news from the bfa and its members
- ❑ observe informative and entertaining TV programmes, training sessions and advice from the bfa, the members and the website's publishers CRE:8 Multimedia.

Is franchising for me?

Knowledge of the latest news and trends from the sector from the bfa will add enormous value to your due diligence process, whether you are thinking of becoming a franchisee or growing an existing business through franchising. However, ultimately it's your decision and you need to spend as long as it takes ensuring you make the right one.

Of course, it's always worthwhile 'getting it from the horse's mouth', so seek out some owners of franchise businesses, particularly those you may be interested in, and find out from them exactly what their experiences have been.

For further information on any aspect of franchising go to www.thebfa.org.

[Our thanks to the bfa for their input to this primer]