

Franchising – Food for Thought

Orna Stokes answers the key questions on running a franchise.



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What is Franchising?

Franchising (Business Format Franchising) is where the owner of a business model (The Franchisor) gives a licence (Franchise) to another party (Franchisee) to replicate an existing business model.

A Franchisee is licensed to replicate an existing business using a trade name, business model, products and services. The franchisor provides **training**, an **operations manual**, a **legal agreement** and **ongoing support**.

The Franchisee typically pays initial up-front fees and ongoing royalty fees to the Franchisor.

What is a Franchise Agreement?

A Franchise Agreement is a legal agreement in which the terms of the licence are set out. The Franchise Agreement sets out costs; length of the agreement; rights and obligations of the Franchisor and Franchisee and what happens if things go “pear shaped”.

Franchisees – why buy a franchise?

If you would like to start a business but find the idea of striking out on your own a bit daunting, buying a Franchise from a Franchisor who runs a well-established business can make the transition from employee to business owner less scary. Buying into a Franchise should bring you:

- Access to a well-developed business concept
- Branding
- Products or services people want to pay for
- A blueprint for how to run your own business
- Training on how to run that business
- Guidance from a management team with expertise in running a business.

What should I consider before I start?

- **How you feel about running a business:** Are you ready to commit time, effort and personal resources?
- **How you feel about following a set business model:** Are you prepared to follow the franchise blueprint that has been successful for the franchisor and do you agree to the terms and conditions of the franchise?
- **Does this Franchise “Grab You”?** Choose a business that fires your passion, fits with your lifestyle – and your pocket. As with any investment, do take independent legal and financial advice before signing the Franchise Agreement.
- **What to look out for:** Make sure the franchise business has a proven track record of success (and for its franchisees). The franchise should have Franchise Agreements drafted by a qualified legal advisor (under Irish or UK law); a satisfied, profitable network of existing franchisees; a full range of business support structures provided by the franchisor as part of the franchise package; a track record of product and service innovation in the franchise.
- **Where can I find a franchise?** If you see a business you would like to replicate check their website for franchise opportunities. Check out organisations such as the Irish Franchise Association www.irishfranchiseassociation.ie, the British Franchise Association www.thebfa.org and further afield the International Franchise Association www.franchise.org. Talk to the Commercial Team at the US Embassy in Dublin. Attend Franchise Exhibitions in the UK (Birmingham, Manchester & London).

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I've found a franchise I like - What next?

- **Kick the Tyres:** Go to a Discovery Day run by the Franchisor, to find out what's involved. Don't be afraid to follow up with questions – check out the Irish Franchise Association "20 Questions" <http://www.irishfranchiseassociation.ie/50-questions-ask-franchisor-0>
- **Talk to Franchisees:** Talk to existing franchisees – how satisfied are they? sense-check your expectations.
- **Develop A Business Plan:** While the Franchisor can help you with general information, you will need to build your localised business plan and financial projections (with the help of your financial advisor) for your franchise territory.
- Take independent professional advice about the Franchise Agreement.

Franchise Finance

- **How much will a franchise cost?** Franchise Agreement fees and set up costs vary widely from €000's for smaller one-person "job franchisees" to six figures for business models with high set up costs – the expected return should reflect the investment.
- **What will I personally have to invest?** You will be expected to invest personal cash in the purchase and set-up costs for your franchise. You will typically have to have one third of the set-up costs in cash. You will also need cash to fund the business (and you!) until your new business is scheduled to be profitable.
- **How can I fund the rest of my franchise costs?** Funding is typically provided through a mix of bank debt & asset finance from your local bank. Check out Microfinance Ireland for loans up to €25,000 for franchising www.microfinanceireland.com. Franchisors may help with loans or deferred payments – particularly for Master Franchisees.

What is a Master Franchise?

A **Master Franchise** is a franchising contract in which the **Franchisor** hands over the control of the franchising activities in a specified territory (e.g. a country) to a person or entity, called the "**Master Franchisee**". The Master Franchisee is typically expected to set up and prove a franchise in the country and then develop a local franchisee network. The Master Franchisee will take responsibility for recruiting, training and managing local franchisees.

Franchising: A model for Business Growth?

If you have built a successful, profitable business and are looking to expand, franchising could be the way to go.

Using the Franchising model, you can **replicate a successful and proven business**, using the investment and skills of new individual business owners, who you can train and support to run their businesses in the same way you run your business outlets. However, deciding to Franchise a business needs a lot of thought, planning and up-front investment by the Franchisor.

Franchising is **not a tool to fix a bad business** – if it doesn't work in your business, then it won't work as a franchise!

Will Franchising work for my business?

Franchising is well established as an effective model for business expansion, across a diverse range of business sectors. Successful Franchises have common characteristics:

- **Proof:** The business model has been proven to work
- **Product:** The business has products and services the market wants
- **Profit:** The business model is profitable and generates enough money to offer realistic returns to both franchisor and franchisee for their investment
- **Portability:** The business can be replicated in other locations

- **Team:** A strong business management team to manage a network of Franchisees and help Franchisees develop their businesses
- **Clarity:** The business model is clear and documented
- **Branding:** A clearly differentiated business brand has been developed
- **Training:** An outsider can be taught to operate a replica of the business to the same standards and processes
- **Protections:** Trademarks and legal agreements (Franchise Agreements) can be put in place
- **Scale:** There is capacity (and willingness) to expand the business to many locations – the costs of setting up and managing a franchise needs to be recouped from a network of franchise outlets.

But, bear in mind:

Franchising does not "fix problems" – if your business is not working as a stand-alone business, franchising it won't necessarily make things better. Franchising is not intended to be a way to get money in to plug a "gap" in your ailing business.

You will have less direct control over franchisees than you would have in a company operated solely by you. You won't make as high a percentage of profit from the Franchise outlets as you would from company owned branches – you and your Franchisee will need to share.

Weakest Link – Your Franchisee gets the rights to use your trade mark and business system, misuse by a Franchisee can impact your brand and other Franchisees. Franchisee selection and an effectively drafted Franchise Agreement will be of great importance.

So if you think your business is franchisable and you are interested in learning more about franchising as a way to grow, the next step is to explore with a Franchise development advisor – talk to the Irish Franchise Association or the British Franchise Association for recommendations.