

Bank of Ireland
Business Banking



a guide to
franchising



Foreword



Bank of Ireland Business Banking recognises the importance and development potential of franchising in Ireland. The sector has become an integral part of our economy and has experienced exceptional growth in recent years. We understand the demand and appetite for start-ups and expansions through franchising, and we are committed to working closer with new and existing customers to help them develop and grow their chosen franchising business.

This guide is designed to help you take the steps necessary to making your franchise a success. I know that you will find this guide very useful and I wish you every success with your business initiative.

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**Published by Bank of Ireland Business Banking
Head Office, Lower Baggot St., Dublin 2.**

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Introduction

What Is Franchising?

Every single interaction of your day may have been facilitated by a franchise business. Franchising is becoming part of the fabric of people's lives, providing an ever increasing array of familiar products and services. If you are thinking of starting your own business, or expanding your existing business it may well be the key to success.

Franchising is a method of product or service distribution that is governed by a contract. It is a form of marketing and distribution in which the franchisor grants to an individual or company, the franchisee, the right to run a business selling a product or service under the franchisor's business format and identified by the franchise trademark or brand. It is important to note that in starting a franchise, you are tied into a partnership arrangement for a defined period of time.

Is it for you?

While franchising has proven itself as a successful business model, it may not necessarily be the right option for everyone. You might find the prospect of signing a contract for many years daunting or consider the systems and operating procedures too restrictive. Some entrepreneurs prefer to put their own stamp and identity on their business. Operating within the framework of a franchise system can provide a tried and tested format and offer a happy medium between working for someone else and setting up a new business alone.

If you answer 'Yes' to the following checklist, the chances are you are more suited to franchising; than perhaps an individual who prefers to do things their own way.

1. I would value the back-up and on-going support provided by franchising
2. I would like an operating system that I could follow in the running of my business
3. I would happily trade under a recognised brand

Section A

How do you Select a Franchise?

With an estimated 5,000 different franchises worldwide to choose from, narrowing your choice can be easier if you ask yourself the following key questions:

- **Does it fit your pocket?**

All franchises will provide you with details of the total investment required. This will help with your initial shortlisting as you will have to match the required amount with the resources you have available for investment, combined with your borrowing capacity.

- **Can you identify with the franchise?**

If you are to be successful in any business you must be proud to be associated with it. It is important that you identify with and enjoy it. That means you do not end up counting the hours of the day. Instead you get a great buzz from your involvement in the enterprise. This is critical to success.

- **Does it suit your local area?**

The success of a franchise in one country doesn't necessarily guarantee that the product or service meets tastes or preferences in another. Carry out market research locally, walk your neighbourhood and talk to as many people as you can to determine market demand.

- **Does the franchise have a proven track record?**

You pay initial and ongoing fees to franchisors on the basis that you are buying experience built up over time. If this franchise concept is not tried and tested, you have to ask yourself what you are buying.

- **Is it profitable?**

Look for information from the franchise about its trading history. If this information is not forthcoming, the company should be avoided. You will be expected to invest your money in the business so its financial stability is critical. Also important is the profitability of the individual franchises within the network.

- **Is there a focus on branding?**

Does this franchise have a well established brand or is there a strategy and budget to build the brand in the Irish market?

- **Is initial and ongoing training of high quality?**

A key success factor in any franchise system is the quality of the training provided to the franchisees. Of primary importance is the initial training, which should fully equip you to run a successful operation.

All franchisors are contractually obliged to provide you with ongoing support and back-up. At the most basic level, you cannot run a business if initial supplies are not delivered by the franchisor on time. One of the biggest problems between franchisee and franchisor is a perceived lack of interest by the franchisor in the success of the franchisee's business.

Establishing the answers to these questions will ensure that you make an informed choice as to your franchise route.

The Cost of Starting a Franchise

Costs can be divided into two categories; your initial start-up costs and ongoing payments.

Category 1: Initial start-up costs

The following cost considerations are specific to start up stages:

Deposit – For most franchises, this is refundable. It is used as an indicator to establish the seriousness of your application. Once you proceed, this fee (on average €1,000) will be incorporated into the initial franchise fee.

Initial Franchise Fee – This is associated with each franchise unit you open. Discounts can be negotiated and obtained on second and third units. It is a payment for the right to use the franchisor's brand and techniques, but it also covers the cost of recruiting franchisees, site selection and your skills. The average fee in Ireland is €20,000.

Initial Working Capital - This covers your initial stock and day-to-day expenses until you break-even within the business. The average figure for initial working capital is €40,000 and is incorporated into the total investment cost.

Total Investment Costs – In addition to your initial fee and working capital, you will also have to fit out the premises. This covers fixtures, fittings, equipment, signage and other items specified in the franchise agreement. The selection of these is non-negotiable as you are following a very specific look and feel for your business. The average total investment cost for a franchise in Ireland in 2003 was €222,000.

Category 2: Ongoing costs

Fixed fee

Mostly applied in job franchises. This fee is a regular monthly or annual fee that must be paid irrespective of the turnover in your unit. The average fixed fee is €7,000.

Management Service Fee or Royalty

The management service fee or royalty is a variable charge and is a percentage of turnover net of vat. The average fee in Ireland is now 7%. You do not pay both a fixed and royalty fee.

Advertising Levy

This fee is charged as a percentage of turnover. The average levy in Ireland is 2.6%. This money is pooled in a promotional fund to build the brand and is critical for the success of everyone within the system.



Funding your Franchise Investment

Lenders will expect you to provide a portion of the start-up costs as equity. It may be as low as 30%, for established franchises in mature locations, or closer to 50% in the case of new franchises.

To work out what you can contribute from your own resources, assess your personal financial situation carefully.

When approaching a bank for funding you should provide a strong business plan to include: background and description of the business; market research; personal information about you the promoter and your business background; information regarding the franchisor, the franchise's existing operations; what support they will provide to your franchise; plus detailed profit projections and cash flow forecasts demonstrating the viability of the business.



In addition, when drafting your plan, check to ensure that the following questions are addressed.

Business Plan	<ul style="list-style-type: none"> - Have you outlined your plans, finance proposals and shown commitment to making it a success?
Funding	<ul style="list-style-type: none"> - Is it too much or too little? - How much are you investing?
Repayment	<ul style="list-style-type: none"> - How much are you borrowing? - Where will repayments be coming from? - Does the cash flow forecast show you can repay the loan? - Does the proposed borrowing match the business need?
Purpose	<ul style="list-style-type: none"> - Is this a good business concept? - Is it ethical, tried and tested? - Is it in a good location and appropriate to the market? - Has detailed market research been completed to support the proposal?
Security	<ul style="list-style-type: none"> - Security required by the bank depends on the amount borrowed and how much you are investing.

Managing cash flow will be a key factor to the success of your business. By planning ahead, securing adequate funding and availing of expert advice, you can get off to the best possible start.

Get Professional Advice

The franchise agreement will be legally binding when signed. We recommend that you obtain professional advice from a solicitor who is familiar with franchise agreements. In addition, an accountant can assist and advise you with regard to the financial aspects of your proposal.

Section B

Franchising your Existing Business

If you currently have a profitable business, with a successful track record, you may have the option of franchising as a means of expansion. This is a major strategic move and one that requires considerable preparation and planning.

Does your business have the following attributes?:

- A profitable track record
- Name protection
- A clear identity
- A transferable operation
- Management depth

A profitable track record

Your track record should be strong enough for both potential franchisee investors and finance lenders (if involved) to be comfortable with the investment. It is easier to franchise a high margin business as each individual unit will have to generate sufficient margin to pay you a royalty and an advertising levy as well as securing a sufficient return on their own investment. If you are thinking of franchising your business, it is essential that you can produce up-to-date audited accounts and that all the affairs of the business stand up to scrutiny.

Name protection

It is crucial that you have investigated and taken steps to protect the name of your business. Franchise companies have sometimes launched in a new country only to find they were infringing on a registered trade mark of an existing business. There are a number of trademark agents who can assist you in this area.

A clear identity

Successful franchise companies are clearly differentiated from competitors by means of their look and feel - "trade dress". This can comprise several features including a distinctive logo, storefront, furniture, uniforms, and vehicles. Trade dress not only differentiates your business but it also ensures consistency from one location to another.

A transferable operation

A franchisable business is one that can be transferred from one location to another while delivering consistency of product or service to the customer. Trade dress will assist this but it must be complemented by a structured training programme that transfers skills and knowledge to new franchisees. This initial training should be supplemented by an operating manual detailing the precise methods to be used in the running of the business.

Management depth

A franchisable business must promote itself as a franchise, and provide potential franchisees with information packs and application forms that in turn will have to be vetted. Contracts must be drawn up and executed, training and on-going support provided and interview and open days organised. If you want to become a successful franchisor you should have the necessary resources to implement this programme. The operating manual should be developed to a high standard to allow a prospective franchisee replicate the business effectively.

Before embarking on the franchise route identify the individual costs associated with the following:

- Name protection
- Trade dress
- Training - initial and ongoing
- Manual - hard copy or online
- Promotional material
- Promotional programme
- Legal agreement
- Management resources

Section C

Case Study - Domino's Pizza

When a couple of young high flyers in the fast food business decided to apply their experience and skills to managing their own outlets, they received welcome support from their former employer. Now established in Cork and Carlow, Cathal McDonnell and Serge Jolondovski are applying the principles of customer service and investment in staff training to the competitive world of pizza delivery.

Domino's background

The U.S. founded Dominos Pizza is a world leader in pizza delivery, operating a network of company-owned and franchise-owned stores around the world which employ in excess of 140,000 people. Last year the company delivered 400m pizzas from more than 7,000 stores (2,000 of which are located in more than 60 countries outside the U.S.).

A franchisee's perspective

Employees with at least one year's service as a store manager have the opportunity to make the leap into franchising – 85% of stores are owned by franchisees. Potential franchise holders are expected to have sound knowledge of the local market and culture, access to funds, a commitment to a long-term relationship, a 'hand's-on' management style and a good knowledge of and access to the local real estate market. Nearly all Domino's Pizza franchise owners started out as store employees and Cathal McDonnell is no exception. He worked for the company between 1997 and 2000 and having returned from two years abroad to manage a couple of outlets in Dublin, he decided to pursue his own franchise.

"The idea of taking a franchise began to form when I came back to Ireland in 2000", he explained. "I went to see Domino's in the U.K. with the support of Kevin O'Driscoll, for whom I had managed stores in Dundrum and Rathmines. However, until I found a suitable property or the company came to me with a property we could not progress, so 18 months passed between the first contact and opening my first store in Carlow in October 2003."

Cathal has a silent partner as well as Serge, whom he met when working in Dublin. "I trained managers for other Domino's stores in the past and Serge was a trainee manager at the time, he later became Dominos World Rookie Manager of the Year and his stock was high in the company so we both had the right background."

When someone is accepted as Domino's franchisee they enter a development programme, which involves a high degree of support. For the first six weeks the company offers (at the franchisee's expense) to put someone into the outlet full-time, but because Cathal and Serge already knew what was involved they didn't need that level of assistance.

When Carlow was identified as a possible location Cathal spent some time researching the area. "We knew there were differences between Dublin and Carlow, but we noted the amount of housing development going on and figured that the potential market would grow. There is also a large student population." The Cork store presented a different challenge. It was acquired from a previous franchisee in March 04 and was not performing to its potential. "We took it over with the idea of building on its performance", he said. "This has been a challenge but we had experience of how to do it from our time in Dublin. Retraining staff has been key to the process of impressing people who might have felt let down by the standard of service they received in the past." Training is a topic Cathal refers to frequently. "Staff development and customer service are a competitive advantage. We need staff who know their job and deliver a quality product. It also helps with staff retention if they see the company investing in them – there are always management opportunities and many franchisees have worked their way up from ground level."

Most of the marketing activity involves direct promotions. Franchisees are free to do their own local advertising and corporate ad campaigns can be tweaked for specific markets. The business also conducts tours of community facilities in Carlow and sponsors sports teams, charities and kids groups. Cathal cannot speak highly enough of the support received from the master franchisor. "The Domino's marketing department is very pro-active. Deliveries are reliable - I cannot remember being let down even once – and we receive regular inspections to ensure we are meeting standards of service and hygiene. Domino's is very strict in relation to food safety and insists on using fresh produce."

There are now more than 300 Domino's stores in Ireland and the U.K. and Cathal said the company is actively looking for new outlets. Catchment areas are restricted to maintain service levels. To borrow Cathal's expression, they don't want to slice the pie too thinly.

(This case study first appeared in Franchise Options as part of the Franchising in Ireland Survey 2004).

Useful Contacts

Franchise Development Unit

Bank of Ireland Business Banking
40 Mespil Road, Dublin 4.
Tel: 01-665 3400
Email: businessbanking@boimail.com
Web site: www.boi.ie/business

Irish Franchise Association

30 Tolka Valley Business Park
Ballyboggan Road, Glasnevin, Dublin 11
Tel: 01-499 0191
Web site:
www.irishfranchiseassociation.com

British Franchise Association

Franchise Chambers, Thames View
Newton Road, Henley-on-Thames
Oxon RG9 1HG, England
Tel: 0044 1491-578049
Web site: www.british-franchise.org.uk

Franchise Direct

27 Guinness Enterprise Centre,
Taylor's Lane, Dublin 8
Tel: 01-410 0667
Web site: www.franchisedirect.ie

Chambers of Commerce of Ireland

17 Merrion Square, Dublin 2
Tel: 01-661 2888
Web site: www.chambersireland.ie

Small Firms Association

84/86 Lower Baggot Street, Dublin 2
Tel: 01-660 1011
Web site: www.sfa.ie

Enterprise Ireland

Web site: www.enterprise-ireland.com

US Commercial Service

US Embassy
42 Elgin Road
Ballsbridge
Dublin 4
Tel: 01-667 4753
email: finola.cunningham@mail.gov
Web site: www.buyusa.gov/ireland

European Franchise Federation

179 Avenue Louise
B1050 Brussels, Belgium
Tel: 0032 2-520 1607
Web site: www.eff-franchise.com

International Franchise Association

1350 New York Avenue N.W., Suite 900
Washington, D.C. 20005-4709, U.S.A.
Tel: 001 202-628 8000
Web site: www.franchise.org

Useful Publications

- Franchising in Ireland Survey 2004 - a copy is available at your local branch
- www.boi.ie/business - business website covering information on all of our product offerings
- A Guide To Starting Your Own Business - a copy is available at your local branch

www.bankofireland.ie/business

