

Franchise Guide

A short guide to franchising

by

Seán McGarry

Managing Director

Franchise Direct.Com

Franchise Guide

Franchising - introduction

Anyone on their way to work in Ireland today can pick up a coffee to go from their favourite coffee bar. They can arrive at their office or factory to find the new letterhead and business cards have been delivered by courier. They can have an important document fast-tracked to a client overseas and schedule a meeting with their business coach before enjoying a bagel, sandwich or wrap for lunch. Their office is cleaned by hired-in staff at the end of the day while they visit the new shopping centre on their way home and pop in and out of retail units with familiar brand names. Every single interaction of the day could have been facilitated by a franchise business. Each year, franchising is becoming part of the fabric of people's lives in the sense that it provides an ever increasing array of familiar products and services. For the person who wants to start a business it is a vast resource of new opportunities. For the existing, successful business franchising can be the model for rapid international expansion.

Franchising – what is it?

Franchising is a method of product or service distribution that is governed by a contract. It is important for anyone deciding to start a business by becoming a franchisee to remember that, in franchising, a person is tied into a partnership arrangement for a defined period of time.

Is franchising for you?

Although many people explore the franchise option, it is not for everyone. Some people find the prospect of signing a contract for ten or fifteen years daunting, while others consider the systems and operating procedures too restrictive for them. Indeed some entrepreneurs prefer to put their own stamp and identity on their businesses. However, every day, there are thousands of people who sign franchise agreements around the world. These people see franchising as providing a tried and tested format and, rather than finding it restrictive, they enjoy the ‘half-way house’ between working for someone else and operating within the framework of a franchise system.

If you can answer ‘Yes’ to the following three statements, the chances are you are more open to franchising than the individual who always wants to do things their own way.

- 1. I would value the back-up and 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 franchise brand.**

Selecting a franchise

Finding a franchise opportunity has never been easier. The myriad of dedicated franchise websites contains hundreds of different franchises. It is estimated that there are in excess

of 5,000 different franchises worldwide to choose from. If you are about to embark on this path it is important that you are systematic about your search. Do not rush into the first franchise that comes along. You may be in a hurry to start a business because of redundancy or job insecurity. However, if you do not get the selection right you could lose your savings and end up in a worse position than the one in which you started.

There are three basics to franchise selection:

1. 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.

2. 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 it 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.

3. It must fit your local area

The fact that you can, for example, easily identify a new botox treatment franchise headquartered in California does not mean it will work in your local area. The success of a franchise in one country doesn't necessarily mean 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 ascertain market demand.

By constantly referring to these three basic requirements you will narrow your search very quickly. Once you have shortlisted your preferred franchise companies, the following five factors can be used to compare each franchise against the others.

1. Does the franchise have a proven track record?

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

2. 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.

3. 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?

4. Quality of initial and ongoing training

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.

5. Quality of ongoing support

All franchisors are contractually obliged to provide you with ongoing support and back-up. At its 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.

How do you get the answers you need?

A very important aspect of carrying out your assessment of a franchise operation is meeting with existing franchisees. You should look for a comprehensive listing of franchisees and take time out to visit as many as you can. This exercise will provide a lot of the answers to your questions about the franchise. The franchisees will be able to tell you about the start-up phase and how long it took them to become profitable. They will usually be very open with you as long as you are not starting up next door. Franchisees are a vital source of material to you as you prepare your own plan. Do draw up a business plan. Although it is a franchise and will possibly provide you with a business plan

template, you must prepare your own plan. Do your own market research and check out the viability of the business yourself.

Get independent advice

All franchises involve contractual obligations and you will need a solicitor familiar with franchise agreements to review your agreement with you. You will also need an accountant to assist and advise on the financial aspects of your business.

Franchising your Business

A profitable business with a successful track record has the option of franchising the business as a means of expansion. To embark on this path is a major strategic move and one that requires the preparation of a detailed franchise development plan.

The preconditions

The following are the preconditions necessary before you consider turning your business into a franchise.

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

Track Record

Your track record should be long enough for both potential franchisee investors and their 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 also 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 a registered trade mark of an existing business in that market. There are a number of trademark agents who will assist you in this area.

A Clear Identity

Successful franchise companies are clearly differentiated from the competition by means of their “trade dress”. This comprises several features including a distinctive logo, storefront, furniture, uniforms, and vans, cars or trucks. Trade dress not only differentiates your business but it also ensures consistency from one location to another and simplifies the business for the franchisee.

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 help but must be complemented by a structured training programme that transfers skills and knowledge to new franchisees. This initial training will be supplemented by a reference manual detailing the precise methods to be implemented in the running of the business.

Management Depth

A franchisable business is very different to a non-franchised business. The former must promote itself as a franchise, and provide potential franchisees with information packs and application forms that in turn will have to be vetted. Interviews and open days must be organised, contracts drawn up and executed, and training and ongoing support provided. If you want to become a successful franchisor you should have the necessary resources to implement this programme.

Cost Headings

The following are some of the costs headings to consider if you are embarking on the franchising of your business:

	€
Name Protection	-
Trade Dress	-
Training - Initial and Ongoing	-
Manual - Hard Copy or Online	-
Promotional Material	-
Promotional Programme	-
Legal Agreement	-
Management Resources	-

Total	-
	=====