

# FRANCHISES

## What is a Franchise?

In the broadest sense, a franchise is an authorisation to sell another company's goods or services in a particular place.

The term 'franchising' can be used to describe a number of business relationships including licensee, agency, and distributor arrangements. The franchisor grants a license to a franchisee allowing them to use their business idea, usually in a specified geographic area.

The arrangement allows the franchisee to trade under the franchisor's trade mark or trading name using an established and proven business model while benefiting from various forms of support (see below).

In exchange, the franchisee pays the franchisor an initial fee as well as ongoing management service fees – usually based on a percentage of annual turnover and/or mark-ups on supplies – while agreeing to certain restrictions in their business activities.

## Advantages and Disadvantages

In some ways a franchise offers the best of both worlds – an individually owned, locally based business with the benefits of an established brand and the economies of scale of a large, national or even international network.

Moreover, because both sides invest in the venture and both stand to profit from it there is a shared motivation to make the franchise as successful and as profitable as possible.

If you buy a franchise you specifically benefit from:

- An established brand that the franchisor is committed to protecting and developing
- A business model that has proven itself in the marketplace
- A franchise package that usually includes operations manuals, bookkeeping and accounting systems, training assistance, and marketing guidance
- Assistance with setting up and ongoing support
- A reliable source of supply
- Any advertising and promotion conducted by the franchisor

Possible disadvantages might be

- Restrictions on how you can run your business with a potential inflexibility in adapting to local conditions

- The possibility of actions by other franchisees or even the franchisor damaging the brand
- Costs higher than you wish to commit to over the long term
- Difficulty in selling the business further down the road as the franchisor will need to approve any future buyer



## Research

Once you have identified a franchise system that suits your needs, you will need to research it thoroughly. Ask to see information on how long it has been running, how many franchisees there are, how successful they have been, etc.

Do not rely only on the information provided by the franchisor but try wherever possible to refer to independent, verifiable sources.

In particular, try to obtain reliable information on the general market for the product or service the franchise provides, the strength of any competitors, and the reputation the franchise has among customers, suppliers, and other businesses.



## The Franchise Agreement

If you are satisfied with the results of your investigation, ask to see a copy of the franchise agreement and read it carefully. Be warned, these agreements can be weighty documents – often thirty pages or more and sometimes as long as eighty pages!

The agreement is a legal contract that sets out the obligations of both the franchisee and the franchisor. Among other things, you will need to pay particular attention to:

- How long the agreement is for?
- What the initial and ongoing fees will be?
- What territorial rights you will have and whether they will be exclusive?
- What restrictions will be placed on the way you run the business?
- What support you will be provided with at the outset and on an ongoing basis?
- What legal and other compliance issues will be involved in running the business?
- How you can terminate the agreement prematurely if needs be, or how you might sell on the franchise in the future?

You should have the agreement checked by a solicitor who has experience in dealing with franchises. Note that franchise agreements are usually standard contracts that apply uniformly to all franchisees, so don't expect to be able to make changes to suit you. In the rare event that a modification is agreed this will usually be contained in a binding side letter that is signed at the same time as the agreement and attached to it.



## The Business Plan

Once you are clear about the franchise you want to buy the next step is to put together a business plan drawing on the results of your research.

This will include among other things:

- The proposed structure of the business – sole trader, partnership, trust or limited company.
- The premises from which you will run the business and how you intend to acquire them.
- The number of employees needed whether full or part time – how they will be trained and supervised, remuneration and tax arrangements, etc
- How the venture will be financed – how much capital you will provide from your side, how much you will need to borrow, how any loans would be secured?
- Realistic cash flow projections for the first three years
- How any legal and compliance issues will be addressed



## Contact Us

We can help at every stage of the process, from choosing an appropriate franchise through research and due diligence to preparing a business plan, setting up the business structure and approaching lending sources.

If you think franchising might be right for you, **contact us** and arrange a preliminary discussion to see how we can help.