

# Franchising guide



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# What is franchising?

Franchising occurs between two entities - a franchisor and a franchisee. The franchisor is essentially selling a business model which the franchisee runs under licence.

It means they have permission to run their business as if they were a branch of the main business.



# A guide to franchising

Many of us like the idea of being our own boss, but might struggle to come up with a business idea. Franchising is an alternative, offering the best of both worlds, but it does have its complexities.

Franchising drives some of the most famous brand names, such as McDonald's and Starbucks. Everything the franchisee sells is developed by the brand.

Importantly, the process for how it's sold is also part of the brand too. For instance, the systems in place for inventory or stock control, and for marketing the product or service.

**In this guide, we explain what franchising is, and highlight the pros and cons of operating a franchise.**

## Who can be a franchisee?

A franchisee might be a single person, operating the business as a sole trader or a limited company.

Or, it could be a group of people, acting as a company or a partnership.





## The pros to franchising

So what are the pros to franchising? Why might you decide to open a business this way? Let's explore...

### Operating under an established brand

Perhaps one of the biggest benefits of franchising is the ability to open a business under an established brand.

Rather than starting at the beginning, you're buying into a business that's already in demand, with an existing customer base.

Establishing a brand can take years, so you save all that time when signing up to a franchise.

### Proven track record

As well as operating under an established brand name, you get to choose a franchise with a proven successful track record.

Starting a business is never without uncertainty, but at least with a franchise you're buying into an operation that already works.

## Support available

It's in the franchisor's best interests to help their franchisee's succeed. The franchise will usually provide systems and software to help you run the business effectively.

You'll usually also be given access to marketing literature and other types of support along the way.

Not all franchises work the same way, so make sure you understand what support will be available to you.





## The cons to franchising

As well as benefits, there are a few drawbacks to operating a business franchise. Weigh them up in relation to your own needs and wants, while bearing in mind the advantages.

### Less autonomy and control

Some people start their own business because they want to be able to implement their own ideas.

As a franchisee you have fewer decision making powers, and have less autonomy for doing things how you like.

Buying into a franchise effectively means that you're agreeing to run your business under someone else's banner. Because they own the brand, they'll expect you to meet their guidelines.

### It can be an expensive way to start up

Entering into a business franchise with a well known brand like Starbucks or Pizza Hut is not cheap. Between the initial payment and any ongoing fees it can take some time to recoup that investment - even for the most well-known brands.

McDonald's, for example, costs an initial £100,000.

## Talking of starting up...

Running a franchise doesn't make you an employee of the parent brand, so you'll still need to register a business.

Depending on your circumstances this might be as a sole trader or partnership, or through forming a limited company.

There can be a lot to consider when you're starting up including:

- ✓ Choosing a legal structure
- ✓ Preparing and licensing your premises
- ✓ Conducting market research
- ✓ Writing a business plan
- ✓ Managing your finance
- ✓ Marketing your business

For further guidance about setting up a business and everything that may entail, read our guide on [starting a new business](#).





## How do I find franchises?

The British Franchise Association (BFA) is an independent organisation which provides advice and guidance on the franchising process.

They also have a franchise directory, which is a useful place to start looking for opportunities!



# Choosing the right franchise

If you decide to go ahead with opening a franchise, how do you choose one to sign up with?

- ✓ Think about your needs, both in the short and long term. Consider them carefully.
- ✓ Identify potential franchise opportunities that might satisfy those requirements.
- ✓ Contact the franchisor to talk through their processes and any related procedures.
- ✓ Look at the sign up steps, as well as how the business runs when the franchise is up and running.
- ✓ Be realistic about your capabilities. Failing to meet the terms of a franchise agreement could lead to penalties!



## Choosing the right franchise

When deciding between your franchising opportunities, you should also make sure that you:

- ✓ Evaluate the franchise against your needs. It might not tick every box, but could offer unexpected opportunities.
- ✓ Calculate how long it will take for you to recoup your investment, and what the ongoing rewards will be.
- ✓ Talk to people who already run their own successful outlets of the franchise. They may be able to guide you.
- ✓ Franchisors can offer open days for potential franchisees to come in, scrutinise the business, and ask questions.
- ✓ Gather every scrap of information that you can and ask for expert advice, such as from your solicitor or accountant.





## Looking for more help with franchise accounting?

If you have any further questions simply call us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.



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