



Franchising your business

FRANCHISING YOUR BUSINESS

If you are considering franchising as a means of developing or expanding your business, this booklet provides a general insight into what's typically involved.

More than 700 businesses in the UK are being run as business format franchises by people from all walks of life and all backgrounds, young or at retirement age. Franchising has enabled them to plan their expansion strategically and recruit like-minded individuals to help them roll out their brands throughout the UK more quickly.

Franchising your business doesn't guarantee a route to success and you shouldn't franchise because you want to grow fast. You should do it because you choose to leverage the skills and enthusiasm of your franchisees.

Some franchises are excellent, most good, but others, extremely poor. Therefore, before making any firm decisions or financial commitment, you should carry out extensive research. Talk to as many people in franchising as possible – especially the professional advisors – until you are fully satisfied that franchising is a suitable route to growing your business. Resources, contacts and business support services are provided in Appendices 1 and 2 at the end of this booklet.

Rewards can come in many forms from the satisfaction of developing a national brand from a small beginning to selling the business for a small fortune. The industry has many individuals that have attained these rewards and many more. Mark Scott, National Franchise Manager, NatWest Franchise Section

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What is franchising?

The term franchising covers a variety of arrangements in which the owner of a product, process or service permits someone else to use it in exchange for some sort of payment. It can take the form of granting rights to operate a fast food outlet, run a retail store or sell business to business services.

recruit, organise and manage a team of valets.

Some job franchises can be developed into management franchises and many opportunities are a combination of the two. However, it is important to evaluate where the emphasis lies because this will be an important factor in determining the particular skills required of the franchisee.

You cannot franchise an 'idea'. John Pratt,
Hamilton Pratt, BFA Legal Advisor

Business format franchising involves the granting of rights by a company (the franchisor) to a third party (the franchisee) to operate their business system using a common brand and common format for promoting, managing and administering the business. A proven business system should be offered – not merely the right to sell a product or service.

Business format franchising encompasses many areas of business activity from retail outlets to mowing lawns and landscaping. The main types offer very different opportunities to their franchisees – a **job franchise**, a **management franchise**, or a **social enterprise franchise**.

- In a job franchise, the franchisees actually do the work that provides the service to their customers. For example, in a car valeting franchise the franchisee will probably valet the cars.
- In a management franchise you would not valet the cars yourself but would

Social enterprises are increasingly recognised as part of a growing sector. Social enterprises are

businesses with primarily social objectives whose profits are mainly reinvested for that purpose in the business or in the community. Social format franchising is where a social enterprise adopts franchising as a means of growing their business.

Social enterprises tackle a wide range of social and environmental issues and operate in all parts of the economy. By using business solutions to achieve public good, the Government believes that social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy. They are diverse and include local community enterprises, social firms, mutual organisations such as co-operatives and large scale organisations

The best part about franchising is taking a very successful formula and watching it succeed under various types of people from various backgrounds. Brian Lewis, Cash Generator

operating nationally or internationally. See Appendix 2 for further information.

How important is franchising?

The 2005 annual NatWest/BFA Survey found that there were 718 businesses in the UK that were being run as business format franchises with, between them, around 31,200 outlets/territories – non dairy 28,500 – and a combined turnover of £9.3 billion. Although there is a reduction from 2004, this is due to the withdrawal of Zurich Life's franchisee workforce (4,000) which has been re-employed again. In 1999 they were added when they were converted to franchisees almost overnight. If we exclude this 'exceptional item', underlying growth remains with a net increase of 500 units/territories.

There has to be a very successful, systemised business that's already operating profitably. You must have high margins to share between franchisor and franchisee. Euan Fraser, AMO Consulting

Who is the franchisor?

The franchisor owns the business system and any associated trade marks and trade names which should be registered and protected. Franchisors allow others (the franchisees) to use these under licence in a designated – but not necessarily exclusive – area. They then support their franchisees both in starting their business and in continuing to make it work.



The business system offered must be proven. Nobody should claim to be a proper franchisor just because they have a business idea and produce a glossy prospectus with unsubstantiated claims.

A franchisor should have been trading profitably – and piloted the business successfully in more or less the same format – for a minimum of one year to 18 months before launching a franchise. They should have resolved all the major issues and demonstrated that they can make it work for someone else.

A franchisor should have a business which is sufficiently simple to be taught to someone relatively easily. John Pratt, Hamilton Pratt, BFA Legal Advisor

They should also have in place the necessary resources – such as staff, premises, infrastructure and finances – to build the network and to train and provide ongoing support to franchisees.

A franchised operation can be set up in three ways.

- A new business can be set up with the express purpose of franchising it.
- A franchised operation can also result from the conversion of an existing independent business into a franchise.
- The system can be used to create new outlets in order to expand a successful existing business.

Who is the franchisee?

Each outlet within a franchise network is owned and run by a franchisee. The franchisee has bought the rights – and the responsibility – to run the business using the trade mark and trading system.

The franchisee is self-employed and owns the individual franchised outlet. He or she must operate the business according to the quality standards and procedures set out in the franchise Operating Manual and under the terms of the Franchise Agreement.

The Operating Manual documents the franchisor's business system and know how and is provided to the franchisee – usually at induction training – on loan for the duration of the contract. It is a 'living' document

and must be updated as and when any amendment, modification or new system is introduced.

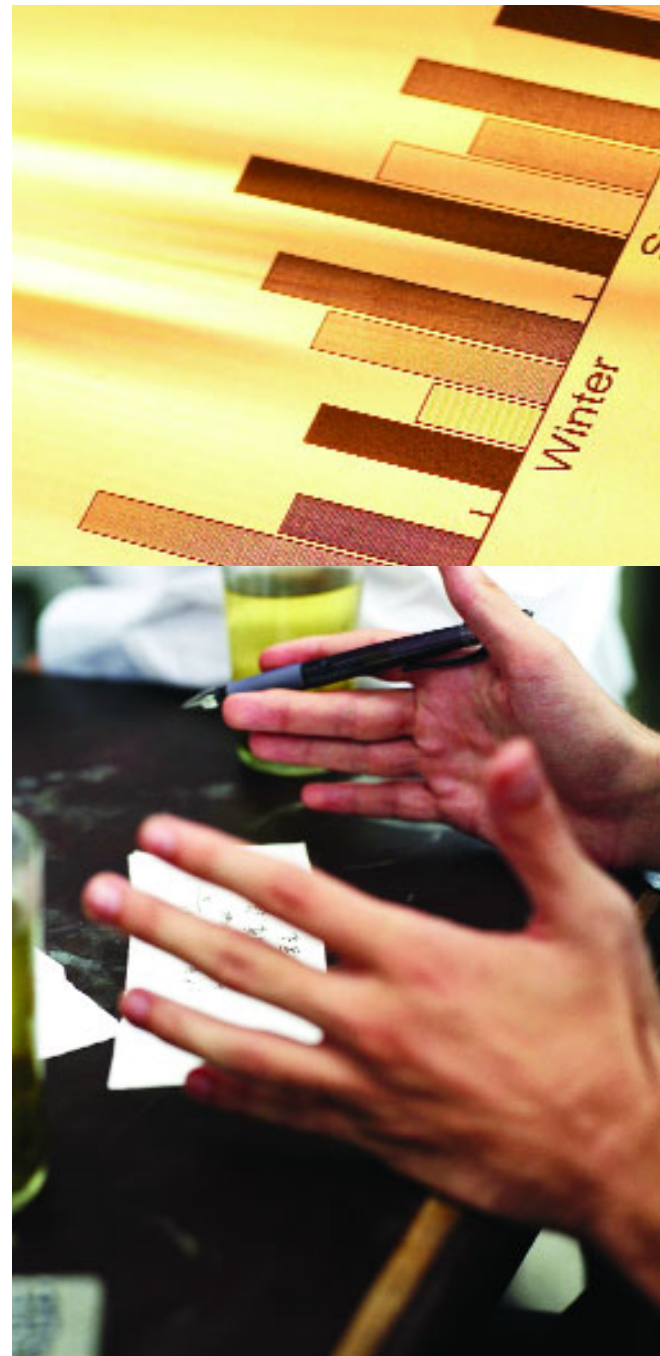
In addition to the initial franchise fee, franchisees will also pay for continuing support from the owner of the business system in the form of national promotion, training and administration services, and continuing product, service and system development. Payment is often a proportion of turnover.

Could your business be franchised?

If you decide that franchising your business could be the best route for you, then here are just some of the issues you will need to consider.

After the Franchise Agreement, the Operating Manual is the most important document issued to the franchisee. Too often, however, it is given low priority both at start-up and later on as the Network matures. Penny Hopkinson, Manual Writers International

- Your business format should be fairly simple and capable of replication. It must not be so specialised that it requires franchisees to have such a high level of existing skills or experience that recruitment will be difficult – or require a level of training that is impractically high.
- The business must be financially secure. Franchising will not save an ailing company. Your business will come under close scrutiny – particularly from the banks, who may be asked to provide loan finance for some of your franchisees. You will need to demonstrate that you have the financial resources to build and support a franchise network.
- There must be sufficient profit in the business to provide a worthwhile income for both franchisor and franchisee.
- You need to be certain that there is a steady or growing demand for your product or service for the foreseeable future.
- Your business should have a distinctive image or concept and Unique Selling Proposition (USP) that sets it apart from other businesses of the same type. This will need to be protected properly – ie. via a trade/service mark – to prevent others from copying it.



Only when your business is capable of operating without the day-to-day involvement of the current management team is it appropriate to consider franchising. Resources need to be focused on developing the franchise rather than running the existing business. Euan Fraser, AMO Consulting

it and the business plan. According to the 2005 annual NatWest/BFA Survey, the average initial outlay for setting up a franchise is £70,800.

You need to assess, very carefully, the level of any external funding required and to explore possible sources of finance.

Being a successful franchisor demands a certain management style based on good communication and persuasion – not control – to be able to persuade franchisees to do things their way. You should be capable of building up a good working relationship, treating your franchisees as your internal customers not employees.

A successful franchisor needs patience and resilience plus the usual personal qualities necessary to run any sizeable business operation – ie. drive, determination, capacity for hard work, assertiveness and so on.

What funding is available?

Finance is vital given that it can take several years to achieve profitability. Substantial, sufficient up-front resources are required to pilot the business, develop the franchising package and recruit suitable franchisees. An under-capitalised franchisor can soon run into difficulties.

Typically, funds to develop a franchised business will be obtained from the High Street banks. The amount available will be determined by the history of the business, the key individuals within

Taking professional advice

The decision to franchise your business must not be taken lightly.

- You must be certain that it is the right option for your business.
- It is not a cheap way of developing your business and involves considerable up-front investment to be done properly. Any profits are likely to come in the longer term.
- You must be prepared to take your responsibilities to your franchisees very seriously because they are being asked to part with large sums of money and, in many cases, change their whole way of life.
- If you are serious about franchising your business, then before investing any money you should seek expert and professional advice from recognised consultants, solicitors, accountants and others who specialise in the different aspects of franchising.

Take care to check a firm's credentials. As a starting point the BFA publishes a list of

their accredited Professional Affiliate members.

In addition, it may be necessary to seek external help in such areas as market research and technical feasibility.

The ability to listen to advice from individuals with experience of the industry is essential.

Mark Scott, National Franchise Manager,
NatWest Franchise Section

What are your next steps?

If, on balance, you decide that franchising could be for you, then you need to increase your knowledge and understanding by undertaking some fundamental research.

- Talk to as many franchise experts as are prepared to talk to you free of charge. This includes the professionals within the industry – such as the BFA and their affiliated consultants, lawyers and the franchise units of the clearing banks.
- Research the internet to gain as much information on other franchise businesses as possible.
- Talk to the franchisors.

You will find a list of resources, contacts and business support services in Appendices 1 and 2 at the back of this booklet.



What are the advantages of franchising a business?

Franchisees invest their own capital in the business to pay for the start-up costs for each individual outlet, thereby reducing the capital cost to the franchisor of geographical expansion.

- The company can expand more rapidly via franchising by utilising the financial resources of individual franchisees. In addition to the initial fee, the franchisor receives an ongoing income from the franchisee in the form of a management service fee/royalty. According to the 2005 annual NatWest/BFA Survey, an average 7.7% ongoing management service fee and 2.1% advertising levy is payable from the franchisee's turnover.
- The franchisor can benefit from increased purchasing power, as the network grows, by purchasing products and services at lower prices and improved terms.
- Savings can be made by the franchisor on personnel and administrative costs because many of the functions normally provided by a head office are undertaken locally by the franchisees.
- Day-to-day issues associated with running each outlet – such as staff, security or maintenance – become the responsibility of individual franchisees.
- Franchisees are likely to be more motivated and committed to the success of the individual businesses than employed managers because they have invested their own capital.
- A network of highly motivated franchisees is a

valuable resource for improving business performance which can benefit the whole network.

What are the rewards of franchising?

Lots of money and new challenges. Euan Fraser, AMO Consulting

Helping to create successful businesses and making loads of money. John Pratt, Hamilton Pratt, BFA Legal Advisor

Rewards can come in many forms from the satisfaction of developing a national brand from a small beginning to selling the business for a small fortune. The industry has many individuals that have attained these rewards and many more. Mark Scott, National Franchise Manager, NatWest Franchise Section

What is the best part of franchising?

Taking a very successful formula and watching it succeed under various types of people from various backgrounds. Brian Lewis, Cash Generator

The fantastic growth we have achieved to-date, recruiting a wide range of successful candidates from all walks of life and establishing a brand which has the potential to become internationally renowned. Suzie McCafferty, Smart Cartridge Limited

What is the downside of franchising?

It costs much more than you thought and takes twice the time to set up that you'd planned.

Franchising is not a quick fix. Euan Fraser, AMO Consulting

Being too optimistic about the number of franchisees you are going to be able to recruit. John Pratt, Hamilton Pratt, BFA Legal Advisor

Not taking advice or listening to the advice given by franchise professionals. It should also be remembered that sufficient finance should be available to develop the franchise; a minimum of £50,000 will be required. Mark Scott, National Franchise Manager, NatWest Franchise Section

People who do not follow the system. Brian Lewis, Cash Generator

Like any business, there is still a significant amount of hard work required. Jason Chong, Contours Express Ladies Fitness and Weight Loss Studios

Being on duty 24/7. Judy Behl, Scenic Blue (UK) Ltd

Finding the wrong people who will not follow what they are shown. Michael Monk, Monk Marketing Franchise Ltd

It has taken more than 12 months to get our internal systems right for franchising and to be able to sign up our first franchisee – at least nine months longer than we first envisaged. Dienneke Ferguson, Chief Executive, Mazorca Projects Ltd





Appendix 1 – Resources & Contacts

BFA members aim to promote good franchising practice in the UK. There are more than 250 UK franchise opportunities within the BFA membership ranging over almost all industry sectors. The site has a wealth of essential information on franchising plus links to the major high street banks and other accredited Professional Advisors – such as solicitors.

The BFA

Tel: 01491 578050

Fax: 01491 573517

email: mailroom@british-franchise.org.uk

www.british-franchise.org.uk

Shop around the franchise category listings; learn more about the opportunities that interest you.

Which Franchise

Tel: 0141 429 5900

email: info@whichfranchise.com

www.whichfranchise.com

Franchise workshops & seminars

Workshops and seminars provide excellent starting points to learn about franchising first hand from industry experts who will give an independent appraisal of the many issues you will face when considering buying a franchise. These are run regionally by Business Links, the BFA and The Franchise Alliance (TFA) throughout the year to equip you with the knowledge you need to make an informed decision. The Franchise Alliance (TFE) – a group of 10 of the UK's leading

franchisors – aims to raise standards within the industry by running free seminars in conjunction with NatWest bank.

Exemplas

Tel: 01727 813747

email: questions@exemplas.com

www.exemplas.com

Franchise publications

Numerous books on franchising have been published by industry experts and several franchise magazines are sold at larger newsagents. The reference or commercial sections of your library may also have copies. The BFA also produces a priced Franchisor's Guide.

These books can also be ordered at

www.british-franchise.org/bookshop.asp

How to Franchise Your Business

By Martin Mendelsohn

How to Franchise Internationally

By Martin Mendelsohn

The Ethics of Franchising

By Martin Mendelsohn

Business Franchise Magazine

(also publish The Pocket Guide)

Tel: 020 8332 9995

Fax: 020 8332 9307

email: editor@circlepublishing.net

Franchise World

(also publish Franchise World Directory)

Tel: 020 8605 2555

Fax: 020 8605 2556

www.franchiseworld.co.uk

Franchise Magazine

(also publish The UK Franchise Directory)

Tel: 01603 620 301

Fax: 01603 630 174

www.franchise-group.com

Daltons Weekly

Tel: 020 8329 0150

Fax: 020 8329 0101

www.daltonsbusiness.com

Most of the major high street banks publish introductory literature which should be available through your local branch.

Bank of Scotland

Tel: 0845 3001686

Fax: 020 8763 9061

email: franchising@bankofscotland.co.uk

HSBC

Tel: 020 7992 1062

Fax: 020 7991 4604

email: franchiseunit@hsbc.com

www.ukbusiness.hsbc.com

Lloyds TSB

Tel: 0117 943 3089

email: franchising@lloydstsb.co.uk

www.lloydstsbbusiness.co.uk

NatWest

Tel: 020 7427 8405

Fax: 020 7427 8502

email: franchise.retailbanking@natwest.com

www.natwest.com

The Royal Bank of Scotland

Tel: 0800 521 607

www.rbs.co.uk/franchise

Further reading

These publications are available from the DTI

Publications Orderline:

Tel: 0845 015 0010

Fax: 0845 015 0020

email: publications@dti.gsi.gov.uk

Better Payment Practice (order no: 04/606)

Loan Guarantee Scheme (order no: 04/1337)

No Nonsense Guide to Finance (order no: 05/500)

Setting up Your Business – Guide to Regulatory Requirements (order no: 05/1775)

Employing Staff – A summary of Government rules and regulations (order no: 06/625)

Franchise exhibitions

A number of franchise exhibitions are held each year throughout the UK which bring together franchisors, the BFA, banks, consultants, solicitors and the franchise publications. Introductory seminars for prospective franchisees are held during the exhibitions.

Venture Marketing Group Ltd

Tel: 020 8394 5230

www.franinfo.co.uk

Appendix 2 – Business Support Services

Franchise support

CREATE is a partnership of national business support organisations whose advisors provide independent and impartial advice for anyone considering franchising as an alternative to self employment or franchising an existing business. Visit the CREATE website for details of forthcoming national and regional events. These include one-day events introducing key aspects of franchising and other types of workshops, seminars, conferences and exhibitions on a host of topics affecting your new business.

Business Growth Model

If growth is your company's primary business objective, then CREATE'S Business Growth Model may suit. It helps you identify the options, advantages and disadvantages of each growth strategy.

A CREATE advisor will help you assess your business and interpret the results against this model - and identify the most appropriate options.

Franchise Suitability Matrix

Should you identify franchising as an appropriate growth strategy, try CREATE'S Franchise Suitability Matrix to further assess the suitability of franchising.

Ultimate success of your franchise opportunity is based upon it meeting key criteria. Each of the questions in the Franchise Suitability Matrix is aimed at stimulating thought within your management team towards identifying a successful strategy.

It won't give you all the answers but the outcome of the scoring system gives you a strong indication of whether or not your business meets the key criteria.

Use the fully interactive, free tools. Then, if you would like to discuss your suitability score – and the way forward – contact CREATE.

CREATE

Tel: 01727 813813

email: info@mybusinesslink.co.uk

www.createproject.org.uk

CREATE partners

The BFA

Tel: 01491 578050

Fax: 01491 573517

email: mailroom@british-franchise.org.uk

www.british-franchise.org.uk

Community Action Network

Tel: 0845 456 2537

email: canhq@can-online.org.uk

www.can-online.org.uk

Every Woman

Tel: 0870 746 1800



email: info@everywoman.co.uk

www.everywoman.co.uk

PRIME

(50+ self-employment and enterprise)

Tel: 0800 783 1904

email: prime@ace.org.uk

www.primeinitiative.org.uk

The Blind Business Association Charitable Trust (BBACT)

Tel: 01509 561790

www.bbact.org.uk

The Prince's Trust

Tel: 0800 842 842

email: webinfops@princes-trust.org.uk

www.princes-trust.org.uk

TIE UK

Tel: 020 7280 0095

email: via web site

www.tie-uk.org

Which Franchise

Tel: 0141 429 5900

email: info@whichfranchise.com

www.whichfranchise.com

Social enterprises

Social Franchise Suitability Matrix – for Social Enterprises

CREATE has broken new ground for social enterprise growth and social franchising. The Social Franchise Suitability Matrix has been developed and made relevant to Social

Enterprises and not for profit organisations. If you're keen to explore new growth routes – then try the matrix.

CAN (Community Action Network) runs the Beanstalk programme – a national programme that assists social enterprises to grow by enabling third parties to replicate their businesses. By enabling other organisations to roll-out a proven social enterprise, their aim is to give opportunities to people, in disadvantaged communities and deprived areas, to set up their own successful social enterprises. Known as social franchising, the model is built around best practice in both the private sector and the social economy. Their aim is to help social enterprises to grow, diversify and become more profitable, without requiring them to find the investment needed to employ new staff, find bigger premises and expand the management team. CAN will be developing this programme.

Social Firms UK run a project that will fast track the development of social firms. The expected outcome of the project will be to establish and support 12 high profile firms, each operating either a franchise or licence, a major procurement contract, or replicating one of the most successful social firms from the current sector. These firms will create 150 jobs including 70 jobs for people with disabilities and mental health problems. The purpose is to create jobs and revolutionise the way people view enterprise creation for people with disabilities.

www.socialfirms.co.uk

email: info@socialfirms.co.uk

General support

If you are based in England contact your local Business Link for practical advice, information and support to businesses. Similar services are provided by Business Gateway (Scotland) – which is a partnership with Scottish Enterprise, Scottish Executive and the Local Authorities – and Llygad Busnes/Business Eye in Wales. In Northern Ireland you should contact Invest Northern Ireland.

Business Link in England

Tel: 0845 600 9006

www.businesslink.gov.uk

Business Gateway (Scotland)

(A partnership with Scottish Enterprise, Scottish Executive and the Local Authorities)

Tel: 0845 609 6611

www.bgateway.com

Business Eye in Wales/Llygad Busnes

www.busesseye.org.uk

Invest Northern Ireland

Tel: +44 (0) 28 9023 9090

www.investni.com

Case study

Hidden Art – A UK social enterprise franchise

Mazorca Projects Ltd is a non-profit organisation which trades as Hidden Art. Based in East London, the franchise provides an umbrella of advisory and promotional services to help talented local designer-makers working across a wide range of disciplines including furniture, ceramics, jewellery, to develop their businesses.

Early in 2003, a meeting with a series of specialists was organised by the social enterprise specialist at Business Link to discuss the options to grow my business. Franchising was one of the options.

A few months later, I attended a Community Action Network (CAN) half-day seminar on franchising. The event was organised in partnership with the BFA and Business Link Herts. Using CREATE's Business Growth Model, we identified the options, advantages and disadvantages of each growth strategy. Having identified franchising as an appropriate growth strategy, we tried their Franchise Suitability Matrix.

Following the seminar, we realised that the way forward would be to pilot the franchise – and try to obtain funding for it. Our bid went out in June 2003 and confirmation of funding followed three months later although we were unable to draw on all the funds until April 2004.

In 2003 my Finance Director and I attended the National Franchise Exhibition at the NEC, Birmingham, to conclude our research. We then agreed, in principle, that franchising would be a suitable route to expand our social enterprise.

We then put together a specialist team which included BFA accredited Professional Advisors. Our legal advisors Field Fisher Waterhouse developed the legal model for our Hidden Art franchise and drew up our Franchise Agreement. Manual Writers International advised us on how to develop the Operating Manual which included retail systems to pilot a shop at the end of 2004.

It has taken more than 12 months to get our internal systems right for franchising and to be able to sign up our first franchisee – at least nine months longer than we first envisaged.

Dieneke Ferguson, Chief Executive, Mazorca Projects Ltd

