

Becoming a Franchisee

Fact Sheet

Have you always dreamt of having your own business, but are concerned whether you have the skills or knowledge to make it work. Instead of going it alone and learning by your mistakes, why not franchise? Obtaining a franchise allows you to run your own business (as the franchisee) using the tried and tested methods of someone who has made a success of their business (the franchisor).

What is Franchising?

"Business format franchising" gives the franchisee a licence to replicate an existing business using the franchisor's trade name, product and service. The franchisee obtains the right to own and operate the business whilst allowing the franchisor to retain strict control over the marketing, products, services and operating systems. In return, the franchisee can tap into a proven business concept and the ongoing expertise and guidance to help run it profitably.

The franchisee pays an initial franchise licence fee (typically a 5 year term) with a right to renew coupled with ongoing fees usually as a percentage of turnover. Training will usually be provided so previous experience in a chosen business is not normally required.

What do you get for your money?

When a franchisee obtains a franchise, there are a number of things that they can expect from that franchise:

- The franchise has a tried and tested product or service
- It is a profitable proven business model
- The experience and know-how of the franchisor
- The entitlement to use the franchisor's trade name and or trade mark

In essence when you become a franchisee, you can expect the entire package, of how to operate the business successfully and profitably.

What is expected of you?

As a franchisee, you will have to be able to accept and follow the rules and restrictions placed on you by the franchisor. Having spent money on obtaining a franchise, one could argue why try and change something that is profitable and not broken.

The franchisor will expect and it will be contractually written, that you will have to provide them with regular reports on performance. Many franchisors will also stipulate that you must achieve a certain level of sales. You will also be contractually bound to follow their way of operating, as laid out in their "Operations Manual".

What can you expect of the franchisor?

Given that franchisors should make the majority of their money through your success, via normally taking a % of your sales, it is in their interest to give you all the support you need. This support should come in various ways:

- Sufficient training to allow you to run the business competently. This should include general business skills as well as technical product knowledge.
- Copies of advertising material that has proven to work
- Ongoing support and advice for any questions or situations where you need help.

What are the Costs?

There are a number of different costs related to obtaining a franchise.

Fees paid to the franchisor:

- **Initial Franchise Fee**
(The average total investment is £45,400 (NatWest/BFA Survey 2008), however there are many franchises that cost less)
- **On-going Fees**
(Normally between 7% and 15% of Gross turnover/sales is paid to the franchisor as an ongoing commission / royalty. This is often described as the management service charge or royalty)
- **Mark-up on Goods**
(Depending on the type of franchise the franchisor may insist that you buy your stock only from them. Sometimes the franchisor may make a small profit on these goods)
- **National Advertising Levy**
(Normally between 1% and 5% of Gross turnover/sales. This works on the premise that the franchisor can get greater advertising results from combining a small amount from each franchisee, compared with the franchisees all paying for their own advertising)
- **Training Fee**
(Sometimes the franchisor will charge for additional staff of the franchisee to be trained. The initial training is normal included in the "initial franchise fee".)

Other fees:

- **Legal Fees**
(It is imperative that you get an experienced franchise lawyer to review the franchise agreement, as this is a contractual and legally binding document)
- **Travel and subsistence**
(Often there are costs associated with travelling to meet the franchisor, attending training, and doing your homework on the franchise by visiting existing franchisees to find out what being a franchisee is really like)

How Can Business Options Help

Your commitment in capital and time in obtaining a franchise will be significant. You need to think through the process carefully, starting with an assessment of yourself and your motivations. If you are exploring franchising for the first time, Business Options provides an objective evaluation to help you determine if franchising is for you and can actually meet your goals. If franchising is right for you, Business Options can help you identify the right franchise, and provide you with the support and guidance for dealing with the franchisor, and in running the business once you are start trading.

For further information on the Business Options services contact Business Options on 01420 550890 or email enquiries@businessoptions.biz