

Franchising a Business in the UK Fact Sheet

Franchising has been the route to rapid, successful growth for many small and medium-size companies (up to 250 employees). It is also a route full of potential pitfalls that can cost a lot of time, effort and money.

What is Franchising?

Franchising is a method that allows companies to expand geographically without large capital outlays, by using independent third parties to do it for you. The franchisor (you) grants a licence to a franchisee giving them the right to operate a business under your name, using your operating systems, methodologies and know how, for a set period of time. In return you normally receive an initial licence fee that covers your costs associated with franchising the business, and an ongoing royalty / management services fee by way of a percentage of the franchisees turnover.

Advantages of franchising

- Franchising allows a company to expand its business using the capital of the franchisees, reducing the financial exposure and gearing of your business
- Expansion can be at a far greater speed compared with open new branches using cashflow or external funding.
- As the franchisees have invested their own money into having a business they are likely to be highly motivated to make it succeed.
- You benefit financially from the success of your franchisees.
- Your own core business can benefit from the increased brand awareness achieved by the franchisees
- Organisational and staffing issues are reduced compared with expanding using company owned sites.

Disadvantages of franchising

- As the franchisee owns their business your profit potential will not be as high as owning the sites yourself. This is to be expected, as you haven't had to put your own capital into open these sites.
- There is a risk that a franchisee can take your knowledge and set up on their own. This is why a franchise contract protects you against this and the misuse of your brand.
- You have a moral and contractual responsibility to support your franchisees.
- You have less control over a franchisee than an employee.

Roles

As a franchisor your role is to concentrate on:

- Developing and constantly improving the franchise business concept so as to ensure the credibility, quality and reputation of the brand on the market.
- Optimising management and sales skills through on-going training.
- Organising national or international advertising campaigns.
- Steering the business's overall development strategy.

The role of your franchisee is to:

- Operate according to your approved method and systems as laid out in the operating manual.
- Ensure that they do nothing to damage the brand.
- Exploit the potential of their franchise territory.

Who is in Control?

Each business outlet is owned and operated by the franchisee. However, the franchisor retains control over the way in which products and services are marketed and sold, and controls the quality and standards of the business.

What are the Cost Implications?

The franchisor will receive an initial fee from the franchisee, payable at the outset, together with on-going management service fees - usually based on a percentage of annual turnover or mark-ups on supplies. In return, the franchisor has an obligation to support the franchise network, notably with training, product development, advertising, promotional activities and with a specialist range of management services.

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)
- **Mark-up on Goods**
(Depending on the type of franchise the franchisor may insist that franchisees buy their stock only from them with a mark-up)
- **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 franchisee staff training and new product training.)

Other fees:

- **Legal Fees**
(It is imperative that you get an experienced franchise lawyer to produce 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

For business owners exploring franchising for the first time, Business Options provides an objective evaluation to help you determine if franchising can actually meet your goals. Once you are ready to franchise, Business Options will develop strategies and a structured approach for your franchise programme and ensure that the necessary tools are in place so that you can build your business. For further information on the Business Options services contact Business Options on 01420 550890 or email enquiries@businessoptions.biz