



Buying a franchise

BUYING A FRANCHISE

This booklet provides an introduction to the method of running your own business commonly known as business format franchising. It explores some of the issues you will need to take into account when first considering franchising as a possible way of working for yourself.

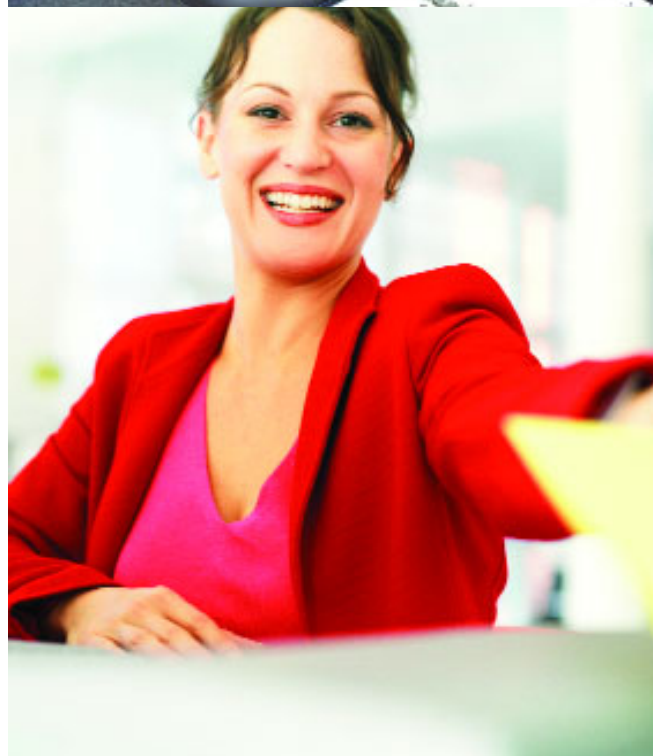
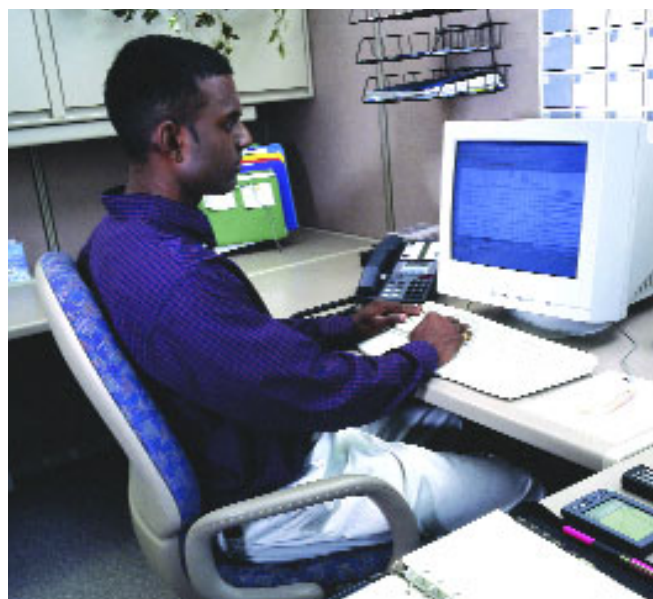
People from all walks of life and all backgrounds, young or at retirement age choose to run their own franchises. They do so for a variety of reasons. Some are disillusioned with corporate life, most want to make money for themselves rather than for someone else. However, the majority choose to buy a franchise because it gives them the opportunity to grow a successful business based on a proven business model and where they can receive training and support from start up to sale.

With more than 700 businesses in the UK being run as business format franchises – and a wide variety of types of business activity – there is something for everyone. However, it is important to be aware that franchising is not a guaranteed route to business success.

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 alternative to any other type of self employment. Resources, contacts and business support services are provided in Appendices 2 and 3 at the end of this booklet.

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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.

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.

I found that I had reached the peak of my salary at my current job. It was clear that to earn the sort of money I would like, I needed to be self employed. Alex Newman, Recognition Express (aged 26), former build/test engineer and then with Recognition Express for 7 years

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 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.

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 operating nationally or internationally.

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.

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



Before signing the Franchise Agreement, an intending franchisee would be well advised to ask to see a copy of the Operating Manual and determine whether the quality and depth of the day-to-day operational support provided is adequate. Penny Hopkinson, Manual Writers International

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.

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.

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.

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

- The system can be used to create new outlets in order to expand a successful existing business.

Is franchising right for you?

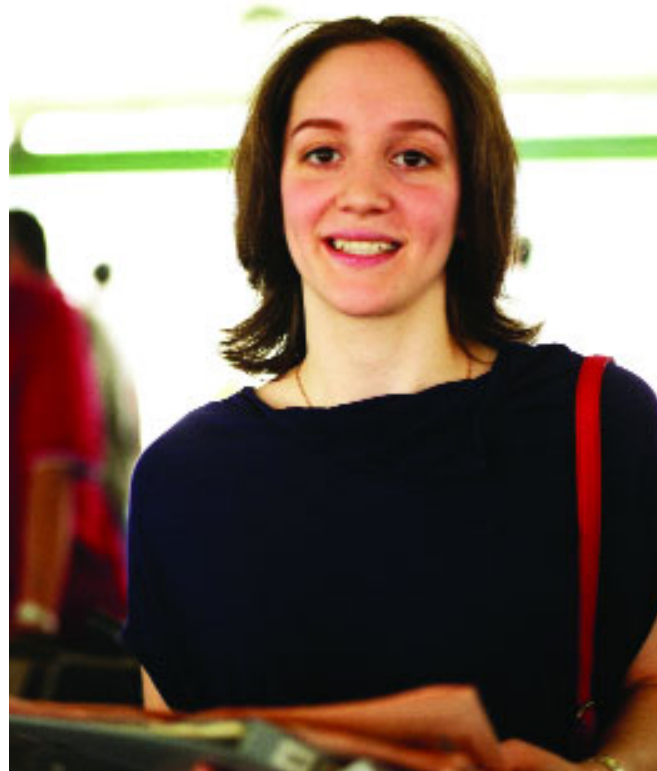
Only you can decide whether you've got what it takes to be a good franchisee and you must be honest in evaluating your suitability. This needs to go beyond having adequate financial resources and a desire for independence.

- You must have the necessary energy and commitment.
- You must also be able to deal effectively with other people and previous business experience is often an advantage.
- You may not need direct experience in your chosen field because you should be taught everything you need to know. However, a personal interest or flair could be helpful and it would make sense to do something you enjoy.

All small business owners get involved in selling of one kind or another. In some franchises you could be making high level presentations to business customers, in others you could be cold calling on the doorstep or by telephone.

A good franchisor will be as careful about selecting their franchisees as you should be in selecting them. You should be prepared to answer lots of questions from your business experience to the state of your health.

A franchisor who is prepared to accept any



Read a variety of magazines to do with starting your own business, which cover franchising as well as other types of businesses. Do a self assessment of your strengths and weaknesses and be honest with yourself about whether self employment is for you. Manoj Pabari, ERA

applicant with the necessary cash to proceed without asking searching questions should be avoided.

How do you fund a franchise?

Finance is obviously a key issue. You will need to:

- Be realistic and assess exactly how much money you need. You should never over-stretch yourself because it is easy to underestimate the funds you will need in the early stages.
- Think about the expense/costs involved to support yourself until the business starts to make a profit.
- Work out very carefully exactly how much you are able to invest and the level of external finance required.

According to the 2005 annual NatWest/British Franchise Association Survey banks are the most important overall source of finance. The average amount borrowed in 2004 was £43,600.

Established franchisors have good contacts with the specialist franchise departments at the major banks, and will often help their franchisees put their case to the local manager for the borrowing they need. Banks regard good franchises as a sound investment and generally speaking will lend more, on better terms, than a business

starting from scratch.

Making the final choice

You should be in a position to start narrowing down your choice of franchisor once you have gathered your background information. When you think you have decided upon the system that will suit you best, you must then begin a period of intensive research.

Your research should involve visiting existing franchisees in the network. Contact as many franchisees as possible to obtain a true picture of the full spectrum of achievement. Never restrict yourself to those names supplied by the franchisor who may only recommend the top performers. Try and speak to at least one franchisee who is running an operation of a similar size and in a similar location to the one you are considering. Ask detailed questions about all aspects of running the business, including the extent to which the franchisee's expectations have been realised. You will find some examples of appropriate questions to ask in Appendix 1 at the end of this booklet.

To arrange a bank loan for my van I rang around banks and checked out the Internet for best rates. Kim Stanier, Oscars Petfoods

Taking professional advice

At this stage you must also seek specialised legal and financial advice from experts in the franchising field before signing any binding agreement or parting with any money. As a starting point the British Franchise Association (BFA) can provide a list of recognised franchising professionals.

An independent solicitor – ie. one who is not connected to the franchisor – should be used to scrutinise the Franchise Agreement and to ensure that you fully understand the implications of its contents. A standard format is likely to be used across the network, so do not expect to be able to change many of the clauses. In addition, it is sensible to let an independent accountant check over the franchisor's accounts and assist with your business plan.

A franchisee needs commitment, enthusiasm, drive, energy, perseverance, business acumen and to be a good communicator. Brian Lewis, Cash Generator

Beware of third party brokers who appear to offer independent advice on choosing a franchise. Many operate on commission and so have a financial incentive in encouraging you to invest.



You should also be aware that some companies have adopted the term franchise for businesses which aren't franchises at all. These could be commission agencies, distribution schemes, pyramid selling or network marketing opportunities.

There can be a fine line between legal network marketing or multi-level marketing activities and illegal pyramid selling. Pyramid sellers are unlikely to identify themselves as such and may cloak themselves in the language of franchising.

The Franchise Agreement makes it quite clear what both parties can and can't do.

Jenny Blazey, Jo Jingles

Sound professional advice can steer you around the kind of pitfalls which could cost you dearly. So never take the risk!

- Always take the advice of experts.
- Do your research – compare the alternatives.
- Check, check and check again!
- Do not rush into anything.

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 2 and 3 at the back of this booklet.



What are the advantages of franchising?

- You are buying a tried and tested system.
- A reputable franchisor should have no difficulty in demonstrating to you the viability of the business.
- You gain the benefit of a franchisor's experience and knowledge – much of it learned the hard way. The franchisor will have overcome the administrative headaches associated with setting up a business from scratch.
- You should receive comprehensive training and ongoing support to help you overcome any problems you may encounter.
- You can benefit from advertising, marketing,

research and development and you may be able to benefit from enhanced purchasing power.

- A properly tested and structured franchise system offers more of a safety net than going into business independently.
- You do not need direct experience in your chosen area. This can open up access to many types of business which you may not have otherwise considered.

Something worth knowing

The best part of running your own franchise is being able to make all the decisions. Taking the money and putting it into my bank account

What are the disadvantages of franchising?

- Although you own the business, you have to operate it in accordance with the systems and standards laid down by the franchisor.
- You must be certain that the franchise is proven and that it will suit your own personality and the location where you wish to work.
- Franchise investments range from around £7,000 to hundreds of thousands of pounds. Generally speaking, franchisees pay an initial fee to join the network and this will vary according to the type of franchise chosen.

In addition, there may be ongoing fees for the continuing support and benefits provided by the franchisor. These are often based on turnover. The franchisee may also be obliged to buy goods and services from the franchisor and sometimes this could be at a price that includes a profit element for the franchisor.

According to the 2005 annual NatWest/BFA Survey, an average 7.7% ongoing management service fee and 2.1% advertising levy are paid from the franchisee's turnover.

and not somebody else's. Jenny Blazey, Jo Jingles, 15 years in management with Marks and Spencer and a senior buyer on leaving the company

I determined how much money I needed by speaking with several franchisees and with the franchisor to determine the period before sufficient profit. I then sat down with my family to assess what this period meant in terms of personal costs. Manoj Pabari (aged 29), former scientist involved in cutting edge research into treatments for HIV, cancer, asthma and other disorders

The success rate for new franchises is high; it is in the interests of the Head Office to help the new starters. Noreen Reddan,

Recognition Express (aged 51), previous career nursing

The best part about running your own franchise is ...

The fact that I can have the lifestyle that I choose and be paid what I am worth at the same time. Manoj Pabari (aged 29), former scientist involved in cutting edge research into treatments for HIV, cancer, asthma and other disorders

Freedom of control; whilst being attached to a greater organisation. Noreen Reddan, Recognition Express (aged 51), previous career nursing

- The failure of a franchisor can leave the franchisee with a business which is not viable as an independent operation.
- You are very much dependent upon the ability of the franchisor and other franchisees to maintain the integrity of the brand. One weak link in the chain can adversely affect the entire network.
- Franchising is a complex area which could give rise to potential conflict between the franchisor and franchisee, without the benefit of a watertight Franchise Agreement.

The downside of running a franchise is ...

You are almost totally responsible for the success or failure of your business – no one to blame! Manoj Pabari (aged 29), former scientist involved in cutting edge research into treatments for HIV, cancer, asthma and other disorders

It is not a 9-5 job – it eats into your personal time. Noreen Reddan, Recognition Express (aged 51), previous career nursing

Appendix 1 – How to Assess a Franchise Opportunity

Here are some examples of the kind of questions that you should consider in assessing a franchise opportunity.

- Is the franchisor a member of the BFA or any other trade association? Have they ever been members or refused membership?
- How long had the company been in existence before it started franchising or was it specifically set up to franchise?
- What evidence is there that the franchise format has been sufficiently piloted in a number of locations?
- What is the company's financial position? Ask to see the accounts for at least the past three years.
- Is it possible to obtain trade or bank references?
- What is the background of the directors?
- How is your exclusive territory defined and is it described in adequate detail in the Franchise Agreement?
- How many franchised units are currently open? Are there any company-owned units in operation?
- Are there penalties if performance targets – eg. sales, number of hours open – are not met?
- What has been the company's rate of expansion? Steady growth is preferable to extremely rapid expansion.
- Have any franchised units failed or ceased trading in the past 12 months? If so, what were the reasons?
- Is there an ongoing demand for the product/service? Is there much competition in the marketplace? Is the business seasonal?
- If appropriate, is the geographical location of the business suitable? (Go and see for yourself.)
- What are the initial and ongoing fees? Are there any other costs? Any request for a non-refundable deposit prior to signature should set alarm bells ringing.
- Will there be sufficient profit left once you have paid out all your outgoings?
- How does the franchisor calculate the financial projections and what happens if these projections are not met?
- How long will it take you to obtain a full return on your investment?
- Are any bank financing arrangements provided by the franchisor?
- Is it possible to talk freely to existing franchisees? If not, beware.
- On what criteria are franchisees selected?
- Can the franchisor demonstrate his/her capacity to provide the necessary initial and ongoing support services? What precisely will this support involve?
- Can you have a copy of the Franchise Agreement?

- Is the franchisor happy for you to take independent advice on the Franchise Agreement prior to signature?
- What are your obligations as a franchisee? This should include any operational restrictions – eg. on pricing or use of suppliers.
- What are the nature and extent of the rights granted to you, including any territorial rights?
- What is the length of the agreement?
- Does the Franchise Agreement permit you to sell the franchise and, if so, are there any restrictions?
- What happens in the event of a dispute with the franchisor?
- What is the procedure for terminating the Franchise Agreement and what are the consequences of so doing?
- Is there open and ongoing communication between the franchisor and franchisees?
- What are the franchisor's long-term plans for the future of the business?
- Can you take a good look at the Operating Manual before signing the Franchise Agreement?

Appendix 2 – 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 UK franchise category listings and get to know more facts 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 franchise industry experts who will give an independent appraisal of the many issues you will face when considering buying a UK franchise opportunity. 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 franchise industry by running a series of free educational seminars in conjunction with NatWest bank.

Exemplas

Tel: 01727 813747

email: questions@exemplas.com

www.exemplas.com

The Franchise Alliance

Tel: 01962 849 456

email: info@myfranchise.net

www.whichfranchise.com/tfa

Franchise publications

Numerous books on franchising have been published by industry experts and several specialist franchise magazines are available from larger newsagents. The reference or commercial sections of your local library may also have copies. The BFA can advise on many aspects of buying a franchise and produces a priced Franchisee's Guide.

These books can also be ordered at

www.british-franchise.org./bookshop.asp

How to Evaluate a Franchise

By Martin Mendelsohn

How to Buy a Franchise

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 brings 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 3 – 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. 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.

eLearning workshop & Self Assessment Tool

For individuals and special target groups, CREATE's interactive eLearning workshop provides a method to understand, online, what it takes to become a franchisee. Work through the

modules and the specially designed Self Assessment Tool. CREATE's Self Assessment Questionnaire is confidential, simple to use and will enable you to assess whether taking on a franchise could be right for you. As with all tools of this type, it won't give you all the answers but it will give you a strong indication of whether or not you meet the key criteria.

Tap into CREATE's online resources for information about franchising and related issues. This includes presentations, articles, Frequently Asked Questions, web addresses and useful contacts provided free of charge.

CREATE

Tel: 01727 813813

email: info@mybusinesslink.co.ukwww.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 Franchise Alliance

Tel: 01962 849 456

Fax: 01962 849 555

email: info@myfranchise.net

www.whichfranchise.com/tfa

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

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

What franchisees value most is ...

The range of franchise services we provide through our Support Team – technical, operations, ICT, marketing, business, preferred suppliers, training, networking, sales, book-keeping, garden design, and our own magazine to name a few. Judy Behl, Scenic Blue (UK) Ltd

The fact that I'm there for them 24-7 if necessary – a shoulder to cry on, someone to help with the VAT return – and someone to congratulate them when they win their first contract. Colleen Denby, The Village Green Team Limited

Our years of experience in anticipating trends problems etc and our general advice on what pitfalls to avoid. Jackie Farrell, The Platinum Limo Company

They never feel alone. There's a shoulder to cry on at times. Brian Lewis, Cash Generator

We provide a daily safety net to trouble shoot and help them grow their business. Suzie McCafferty, Smart Cartridge Ltd

Ongoing mentoring and regular support in the field if required. Michael Monk, Monk Marketing Franchise Ltd

The vital element of the package is ...

Communication – ie: a weekly e-mailed bulletin, a quarterly employee newsletter, regular regional meeting, franchise support managers, an annual employee convention, and annual franchisee conferences and our annual awards. Judy Behl, Scenic Blue (UK) Ltd

Ongoing communication with my franchisees will both foster new ideas and remedy any potential problems before they arise. Jason Chong, Contours Express Ladies Fitness and Weight Loss Studios

Our money back guarantee and multileveled earning streams. Colleen Denby, The Village Green Team Limited

Our limo manual, unique software package and our exclusive product. Jackie Farrell, The Platinum Limo Company

Training. Brian Lewis, Cash Generator

The fully comprehensive package for a turn key operation – ie. no hidden extras. Suzie McCafferty, Smart Cartridge Ltd

24 years' experience in this industry. Michael Monk, Monk Marketing Franchise Ltd

