



Buying a Franchise

Introduction

Taking on a franchise is an option worth considering for anyone who wants to run a business but doesn't have a specific business idea or prefers the security provided by an established concept. The right franchise can give you a head start. Instead of setting up a business from scratch, you use a proven business idea. Typically, you trade under the brand name of the business offering you the franchise, and they also give you help and support.

What is a franchise?

A franchise is an agreement or license between two parties which gives one party (the franchisee) the rights to market a product or service using the trademark of the other party (the franchisor).

The franchisee has the rights to market the product or service using the operating methods of the franchisor. The franchisee has the obligation to pay the franchisor certain fees and royalties in exchange for these rights. The franchisor has the obligation to provide these rights and generally support the franchisee. In this sense, franchising is not a business or an industry, but a method used by businesses for the marketing and distribution of their products or services. Both franchisor and franchisee have a strong vested interest in the success of the brand and keeping their customers happy.

Successful franchises have a much lower failure rate than completely new businesses. However, you will still need to work hard to make the franchise a success and you may have to sacrifice some of your own business ideas to fit in with the franchisor's terms.

Pros & Cons

Advantages

- Proven format - you enjoy many of the advantages of an established business.
- Trade name - potential customers will be familiar and comfortable with the product or service you are offering and it should take less time to establish your business.
- Training and support - you will be trained in all aspects of the operation, helping you in the set up and running of your business.
- Finance - because you have the benefit of a proven business format behind you and projections which are normally based on reality and experience, your bank is more likely to look favourably at your proposition.
- Exclusive rights - You will often be given exclusive rights to the franchise in a specified region or territory or to an exclusive client base.

Disadvantages

- Cost - You pay an initial franchise fee to buy into the franchise which can be a large sum of money. You also have the usual business costs (premises and equipment, stock and other supplies). In many cases, these will be bought from the franchisor. As an example, to become a Prontaprint franchise, Prontaprint estimate the franchisee's 'investment' cost to be around £100,000, with a minimum £30,000 of this being provided by the franchisee.
- Royalties - you will probably pay a royalty on sales, or a

management fee, regardless of whether you are making a profit or not. This can be a fixed amount or a percentage of sales or a mixture of both.

- Lack of independence - the franchisor will control many aspects of your business and receive a proportion of your sales income.
- Restrictions on sale of business - a franchisor will not allow you to sell without approval. Nevertheless, the franchise contract normally allows you to sell your business, subject to the conditions of the agreement.
- Restrictions on business activity - the franchisor will not normally allow you to become involved in activities outside the agreement, meaning you may be unable to exploit profitable business opportunities within your franchise operation.

Is Franchising Right for me?

Franchising isn't suited to everyone as it involves a particular attitude to risk and entrepreneurship. Can you answer the following questions positively?

- Are you so keen to have your own business that you are prepared to risk possibly your life savings and put up security (perhaps your home) to raise the capital to start the business?
- Are you prepared to make the sacrifices running your own business will require?
- Are you prepared to accept the long-term obligations of the franchise agreement and the franchisor's rules and terms of business?
- Are you a self-starter with ambition and a high energy level?
- Are you capable of dealing with the stress of running your own business and having to rely on it for your sole source of income?
- Does your family support your plans and understand the financial and lifestyle implications of you having your own business.

Checklist for evaluating a franchise opportunity

- Find out what franchises are available by viewing www.whichfranchise.com - there are also exhibitions, directories and magazines all devoted to franchising.
- Take as much advice as possible - from the British Franchise Association, banks, lawyers, accountants, Business Link etc
- Examine your own skills and experience - where do your skills lie and will they suit the particular franchise opportunity? Does the franchisor provide training and back-up to help you overcome any skill gaps?
- Check the franchise is right for you - is the business one you can see yourself running?
- Talk to existing franchisees - what problems did they face, how successful are they?
- Investigate the franchisor - it is important that the franchisor has the financial resources to support a franchise network. Get audited accounts on the franchisor and check out their financial performance and stability.
- Examine the marketplace - is there a market for your chosen franchise's goods/services?
- Is the franchise operating in a market subject to the economic environment, is it seasonal or subject to unpredictable changes in demand?
- Will you be offered an exclusive territory or group of clients on which to build your business as a franchisee?
- Take care with new franchises - has the franchise been piloted, how long has the franchisor been in business?
- Carry out your own SWOT analysis on the proposition - do the strengths outweigh the weaknesses and are the opportunities greater than the threats?



- Check the legal agreement - has the franchise agreement been vetted by a specialist solicitor or accountant with a good knowledge of franchising?
- Take your time - however enthusiastic you are, don't be rushed and do your homework.

Buying a franchise - like any business venture - is not a short cut to easy riches. Most franchisees work very hard, and though statistics indicate that the risks for franchisees are lower than those for other business options, there are still risks. Nevertheless, franchises are becoming an increasingly popular business option, and are well worth considering.

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How Harrington Kelly can help?

We can provide professional advice assistance in a number of areas:

- Guidance on the terms of the franchise agreement.
- Preparation of your business plan, financial forecasts and budgets.
- Arranging finance.
- Bookkeeping, Payroll and VAT.
- Preparation of accounts.
- Practical advice on how best to grow your business.
- Tax relief on franchise payments.