

Going for growth by turning your business into a franchise

With UK turnover from franchise networks achieving £13.4 billion and an overall failure rate still under 4%, the franchise community has a lot to be happy about. In this article, Adrian Price considers the advantages of growing your business through franchising.

Let's start with the statistics. The 2012 NatWest/BFA franchise survey shows the franchise sector is doing pretty well¹. Turnover in the sector is now in excess of £13.4 billion, an increase of 4% with over 40,100 franchising units employing 594,000 people. So, why consider franchising?

Franchising is a method of expansion for an established and successful business looking to grow a network. It can also help businesses to expand both nationally or internationally, strengthen the brand and reach of a company and act as a good method of securing its future, but only if it is done well.

As a business owner you have already developed a proven system, faced the challenges of starting the business and created and refined the strategies and procedures responsible for its success. You also know how to market your business, who to hire and how to train employees.

So, when considering franchising your business, you first need to gain a full understanding of the advantages and disadvantages, the financial aspects of the relationships between the franchisor/franchisee and how this will impact on your current business operations.

Once you have this understanding, you then need to ensure that your business has certain key elements in order to make it successful. These include:

- A clearly defined trading name, brand and system.
- A format which is proven, successful and which can be easily duplicated.
- Profit to support the franchisor and franchisees.
- The ability to adapt to a culture in which roles and responsibilities are clearly defined.

Ask yourself is your business successful and profitable with an established client base? Can you show that your business can be replicated? Do you have scope to open additional outlets or offices around the country?

What are the advantages?

The main three benefits of growing your business through franchising are money, time and people:

- 1) Money - franchising allows you to use other people's money to grow your business whilst also having less involvement with the day-to-day operations.
- 2) Time - franchising provides a method for growing your business quickly, whether you plan to grow locally, nationally or internationally. You will continue to grow and expand as long as there are available regions and people want to purchase your products or services.
- 3) People - this is probably the most time consuming business support function that many business owners have to deal with. Franchising attracts highly motivated people who have a local expertise and generally requires less staff to operate.

There are other advantages of growing your business through franchising such as economies of scale from areas like pooled marketing and cost efficient bulk-ordering and cash flow advantages from initial fees or recurring annuity income from contracted customers. In addition, there are operational advantages such as higher owner/operator motivation, the

¹ <http://www.franchiseworld.co.uk/archives/4833>

transfer of operational responsibility and risk, faster network growth and increased idea creation and sharing.

You will also have a competitive advantage since you already have a brand, a positioning statement and proposition as well as market share. In the recent afore mentioned NatWest survey, 3 out of 4 people saw a competitive advantage with a franchise, as opposed to opening a new business from scratch. Also, the forced failure rate for franchised businesses more recently has been averaging 4%, so much better than the economy as a whole.

Franchising now appears in so many areas of business. There are the well known franchised fast food or coffee brands like McDonalds, Costa, Domino and Subway, but there are others in retail, health, property lettings and sales, printing, vehicle services, direct selling, domestic and commercial cleaning, renovation services, hotels and training (the list goes on).

What about franchising overseas?

Growing your business through international franchising will start in one of two ways, either by a company which has produced a planned offer or from an enquiry made via the internet or from a franchising exhibition.

By expanding overseas and using local franchisees, you are able to tap into the local business knowledge/market and the franchisee is in a much stronger position to deal with legal and cultural issues.

There are several ways in which an international franchise arrangement can be structured and below are some of the options to consider:

- Master franchise – involves the franchisor granting franchise rights for the whole or a part of a country to a local business entity (a master franchisee). These rights then allow the master franchise to operate its own outlets and to grant franchisees to other local business entities within that country or a specified region.
- Direct franchising – involves the franchisor granting direct franchise rights, along with continuous training and support to a franchisee in another country. However, this type of structure is suitable where only one or two branches will be opened in a particular country.
- Joint ventures – involves a franchisor establishing a joint venture with a local business entity and a master franchisee is then granted to the joint venture, which becomes the national franchisor.
- Subsidiary – involves the establishment by a franchisor of a subsidiary in another country. The subsidiary would then grant individual franchises in that country and has a local presence. The franchisor will have a personal relationship with the franchisee and will retain total direct control of the franchise system.

These structures can be used in a variety of ways and each will have their own benefits and drawbacks. However, before thinking of franchising, you will need to have a proven franchise system, a training module/ manual, processes and procedures and a format which can be easily duplicated and be profitable for both the franchisor and franchisees. Recruitment, motivation and development of quality franchisees will be the key to success.

“There has been 15% growth in franchising since 2006.”

Developing a successful franchise needs careful planning, continuous monitoring and advice. If you are considering growing your business, pause and consider whether franchising might be a viable and profitable alternative for your business.

It may help you to ask yourself the following questions:

- Is my existing business model profitable and sustainable?
- Can I transfer my knowledge, processes and procedures?
- Can my model be profitable elsewhere?

As experienced advisers to franchisors and franchisees, we understand your needs and issues and can advise and support your business from inception through its entire business cycle and help structure your business in the light of your expected business performance. We have excellent contacts with the British Franchising Association (BFA), banks, legal specialists and consultants within the sector.

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