

10.4 Franchising

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| DISTRIBUTION |
| PROMOTION |
| PEOPLE |
| FINANCE |
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- > *Essential elements*
- > *Is your business suitable for franchising?*
- > *Implementation*
- > *Supporting franchisees*

Franchising is a well established business model, and is expanding strongly because it offers potential business owners an established model and systems, and to customers a well defined product. It is particularly suitable for retailing, where as many as 1 in 5 new businesses are franchises. Many new franchises are 'category killers'—they do one focused thing extremely well, and quickly spread to dominate their category. Recent arrivals in the food industry include Bakers' Delight, Boost, Cibo, Hudsons, Wok in a Box, Gloria Jean's and Michel's Patisserie. Franchising is also expanding in business, personal and professional services.

The essential elements of a franchise

Franchising is a licensing relationship between a franchise provider ('franchisor') and a franchisee. The licence allows the franchisee to copy the franchisor's business model, including such things as

- > a proven business format
- > a trading name, brands and logos, and trademarks
- > intellectual property, such as recipes and production systems
- > business systems
- > training, support, advice and guidance
- > market research
- > participation in joint purchasing and marketing activities

The licence is usually granted for an upfront payment, certain expenditure commitments, and an ongoing royalty arrangement. The royalty may be a regular franchise fee, or a percentage of sales. The percentage may vary widely, between 2-20%, depending on the margins in the business model.

A franchise often covers an exclusive territory. Franchise models are often structured in hierarchies, with master franchisees purchasing a licence for a geographical area, such as South Australia, and then sub-licencing franchises to franchisees in specific locations within South Australia.

A franchising model allows a business to expand rapidly, because it taps into the capital and the self-interest of the franchisees. They are highly motivated to generate their own profits, using a proven business model.

Is your business suitable for franchising?

Your business may be suitable for franchising if

- > the business model is demonstrably successful
- > the business format is a powerful example of the category in which it operates

- > the business format is easily replicated in many locations
- > the goods and services attract a premium price and are sold at high margins, so that franchises can be highly profitable if run according to the business model
- > the name, trademarks and logos are legally well protected
- > the business systems are well documented in an operating manual
- > you are able to provide training and support
- > you have a clear picture of your target markets and demographics, and therefore how you would like the business to expand geographically

Implementing a franchise

Implementing a franchise requires extensive analysis of your potential markets and competitors, including consumer and industry trends.

Key documentation will include

- > marketing literature aimed at potential franchise holders
- > an operating manual and guidelines
- > a franchise agreement

Jim's Group

After a failed attempt to earn his PhD in history, Jim Penman was 30 years old and broke. Apart from research skills, Jim knew how to mow lawns. Starting out with some gardening equipment and advertising flyers, Jim grew the business to the point where he was unable to keep up with demand, and started selling lawn mowing rounds.

Faced with competition, Jim organized a formal franchise system. He put the franchisee first, on the basis that satisfied customers required satisfied franchisees. He chose his franchisees carefully. He did not cap franchise growth, and kept franchise royalties down. He went to any length to keep them satisfied. He looked for opportunities to migrate the system into other areas, and now includes fencing, dog washing, paving and book keeping.

In 14 years the Jim's Group has grown to over 2,000 franchisees in Australia, New Zealand and Canada.

You will also need to attract potential franchisees through advertising and media stories.

It is sensible to seek professional franchising advice early in the process. Although this can be expensive, it will assist you to form a realistic picture of your chances of success, and the likely costs.

Running a pilot may help to test and strengthen your franchising model.

Supporting franchisees

The greater the support provided to franchisees, the more likely they are to prosper, which is in their interests and yours

However, many franchisees will be moving into business for the first time. Inexperienced business owners often choose to acquire a franchise rather than establishing an independent business precisely because of the support provided by franchisors, the greater certainty of success through a proven business model, and a greater willingness on the part of banks to lend for proven franchises.

The level of support required should not be underestimated. In the early stages franchisees will require

- > training
- > assistance with finding premises
- > advice and support with setting up

Once established, they will require

- > ongoing training and support, including regular individual and group meetings
- > financial and other business advice

Books

Garry Williamson, *Franchising in Australia* (Allen & Unwin)

Franchise World Directory

Franchising Australia Survey

Magazines

Franchise World

Websites

Australian Franchise Opportunities Exchange
(www.franchisedirectory.com.au)

Franchise Council of Australia (www.franchise.org.au)

Franchisenet (www.franchise.net.au)

Other resources

Franchise shows are held regularly across Australia. If you are thinking about entering franchising, these are well worth a visit.