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August 12, 2004

Enterprise

Drive is on to promote franchising — a game of two halves

BY ELIZABETH JUDGE

ONCE it was just pizza and burger joints. But, aided by success stories such as Thorntons, the chocolatier, and Dyno-Rod, the plumber, franchising has grown and diversified rapidly in the UK. Today the industry is worth nearly £10 billion, up from less than £5 billion in the early 1980s, and three of the big four high street banks now have franchise units to help the sector.

However, experts feel that the potential of this business system is still far from being realised in the UK. And the number of individuals seeking to become franchise owners is far outweighed by the number of business owners seeking to expand through franchising.

So what is holding people back? The problem is partly bad publicity around the sector. One so-called "franchise", for example, was recently shut by the Department of Trade and Industry after promising people profits that failed to materialise. "The term franchise has been used very loosely," says Simon Wise, of the British Franchise Association (BFA), the sector's trade body.

Another problem, he says, is simple lack of understanding of how the industry works.

Now, the BFA is working with the Government to push franchising as a mainstream work route for entrepreneurial individuals. The sector will be promoted by Business Link, the government business advice service, and by Regional Development Agencies. The BFA has also tightened the code that its 260 accredited members must follow.

"We want franchising to be accepted here in the UK as it is in America, where it is a part of life," Mr Wise says. "There are some tremendous opportunities for people willing to take the plunge."

Franchising creates a joint venture between an independent

operator, the franchisee, and the business owner, the franchisor. Generally, the franchisee pays an initial fee to buy into the brand and a monthly management fee, generally 8.2 per cent of average sales. The time in which a franchisee can expect to see a return on investment varies, but is two years on average.

The system's appeal for the franchisee is self-employment with the safety net of an established firm. Studies indicate that a franchise is a "safer" form of business ownership, too, with less likelihood of failure than with other business start-ups.

For franchisors, the system is a way to grow rapidly without big capital investment.

That is the theory. Reality for both parties can differ. Kathryn Hayes, HSBC franchise manager, says: "The big pitfall for both franchisee and franchisor is in viewing the system as a way of getting rich quick. The franchisee needs to do thorough research on the company they are intending to buy into and think carefully about making the right 'fit' — that is, investing in a franchise that matches their skills.

"They need to ask 'How much support will I get from the franchisor?' and 'Does this company have a track record?'. And they need a specialist lawyer to read any contract before they sign."

The franchisor needs to do research too. Ms Hayes says: "If it is a company just going into franchising, it should first do a 12-month test run to see whether its business plans and figures stack up."

Alpesh Patel, a "master franchisor" for Puccinos, the UK's largest café bar franchise, says any company considering franchising should consider: "Do you have a strong brand? Have you a record of success? Do you have funding to develop and support a network of franchisees?" Franchising, he says, is not a turnaround solution for a failing company, but a long-term growth strategy. After all, the average start-up costs for a franchise system for an established business, including infrastructure and management time, is more than £100,000.

Businesses should also be wary, Mr Patel says, of people wishing to invest in a franchise and install someone else as manager. "One of the key drivers of profitability in a franchise business is that the manager has put down his own financial commitment," he says. "For that reason, he will be keen to maximise sales."

Margaret King, who is based at Benfleet, Essex, is confident of her prospects after leaving her job in newspaper advertising and paying nearly £8,000 for a franchise from Mollymaid, a Canadian-based domestic cleaning company.

The personal services sector is one of the fastest-growing in franchising, and Ms King also feels that the business suits her skills. "I was used to using managing skills and running teams of people, and that is my role here at Mollymaid and one of the main reasons I opted for this," she says.

Before signing a contract, it is vital that a franchisee does full research. Ms King says: "Ask to visit lots of the current franchisees and see whether they are close to fulfilling the projections the company has given you. Ask what support the company will give when things are not going so well, as well as when they are."