

Making a case for franchising

Franchising is a model which is gaining in popularity and saw considerable growth during the downturn.

WHETHER you run an established business poised for growth or want to start your own venture, franchising has a great deal to offer. But is it the right option for you?

Cathryn Hayes, Head of Franchising at HSBC, has seen a rise in the number of established businesses looking to expand through franchising. She said: "Franchising is an ideal growth model for some businesses. It allows them to build their brand and open outlets faster than otherwise possible."

"However, while franchising can offer significant long-term gains, it isn't a quick fix. The business must be suitable for franchising as well as financially stable, proven and profitable."

Swindon-based entrepreneur, Jo Tomlinson, successfully franchised her business 'We Love Pets' just over 12 months ago and has already recruited nine franchisees, including four in Wiltshire.

"I established 'We Love Pets' in 2007 after becoming disillusioned with my job as a lawyer working in the public sector," explained Jo. "I've always wanted to work with animals and so I came up with the idea of providing quality dog walking, pet sitting and other care services to animals whose owners are at work during the day or want to get away at weekends or for holidays."

"The business took off and reached a point where I was able to think seriously about expansion. Franchising seemed

like the best option. I've employed two people to help with the administrative side and I provide advice, training and support to my network



Jo Tomlinson, founder of We Love Pets, with Susie

of franchisees. Longer term, I'd like to roll the franchise out, nationwide."

Jo believes the key to becoming a successful franchisor is market research. "It's important to do your homework and test the market to ensure your business has universal appeal and that success isn't limited to a particular location or group of people," she said. "The other important consideration is whether your processes and procedures can be easily replicated. You need to be able to document everything to create a turnkey business which is easy for others to adopt."

Franchise specialist, Carl Reader, a director at Swindon-based chartered accountants and business advisers Dennis & Turnbull, agreed. His company

provides software which enables franchisors to provide transparency and consistency across all their systems while providing franchisees with low cost accounting solutions tailored to suit individual franchise businesses.

"Franchising is a great way to replicate a solid business," said Carl Reader, who sits on the Member Services Committee at the British Franchise Association (BFA). "However, if it is not approached properly with the right professional advice and systems in place from the start, it can cause all sorts of problems for both sides."

"If a business owner is genuinely looking for a partnership where both parties stand to win, then franchising becomes a real option."

For many start-ups, becoming a

franchisee is attractive. It reduces a lot of the risks by providing the new business owner with the means to hit the ground running, including an established brand, proven business model, training and advice, and a network of potential mentors, suppliers and customers.

MP for Swindon North, Justin Tomlinson, who is a small business ambassador for the Conservatives, says he is a 'big fan' of franchising. "It's a straight forward and organised way for people to run their own business," he said.

"Franchising goes a long way towards removing the mysteries and some of the challenges of running a business from scratch. For me, the mentoring and networking aspects of belonging to a franchise are crucial as they enable new business owners to share the opportunities to grow and overcome any obstacles together."

Rishi Ladwa, a corporate solicitor based at Withy King in Swindon, said: "Franchising is a fantastic option for somebody thinking of starting a new business, looking for a complete change of career or perhaps even an investment opportunity."

"The risks to somebody new to business or a particular sector are inherently lower with franchising and it takes away some of the fear of going into something from a standing start."

"It is important however that a potential franchisee takes certain key steps at the outset. They must do their research and understand all aspects of the franchise business; in particular the contents of the franchise agreement. That agreement will detail exactly what is expected of them, the duration of the agreement, fees payable (and receivable), rights and obligations, and the consequences of wanting to leave early together with any consequences of not adhering to the

terms.

"While it is important for the franchisee to be aware of their rights and obligations it is a common misconception that a franchise agreement must be heavily negotiated. This can in fact be counter-productive. After all, every other franchisee that is part of the same network will be presented with the same document. Its main purpose is ultimately to protect the brand and other rights of the franchisor which in turn protects each new franchisee becoming part of the same network. Don't forget that the franchisor has a vested interest in your success. There is a reason why the franchising industry continues to flourish and that is because when done properly and collaboratively between the franchisor and franchisee – it works."

According to HSBC's Cathryn Hayes, many banks take a favourable view on lending to franchised businesses. She said: "In broad terms, franchising is a safer option than going it alone. A franchisee should have a tried and tested format to follow, training and support from their franchisor, and a network of fellow franchisees to speak to, which means that banks are going to be much happier to lend. At HSBC, we've continued to see a strong demand for finance for a wide range of franchise start-ups, and have supported strong viable franchises across all sectors and all sizes, including those working from business premises, home or even out of a van."

Franchisees may also find it easier to rent premises. Greg Callard, a commercial property solicitor at Withy King in Swindon, explained: "Landlords are often nervous to rent their properties to new businesses, and if they do, they often require large rent deposits tying up a significant amount of capital. This may make the deal unaffordable from the outset or, longer term, affect the business's ability to grow."



Rishi Ladwa, corporate solicitor, Withy King



Justin Tomlinson, MP for Swindon North

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"This is one of many reasons why a start-up may be better off with a franchise agreement. In practical terms, the landlord will often enter into a lease with the franchisor who will then grant a sublease to the franchisee. While this may impact on costs, it must be weighed against the ability to secure more favourable lease terms from the landlord."

"Another benefit of entering into a franchise agreement is that it provides the landlord with the opportunity to have their property associated with a well-respected brand which in turn attract tenants to any adjoining properties. This, together with the additional financial security and backing which the franchisor can offer, makes a franchisee more attractive to a landlord than an independent start-up."

"As with every lease, the terms must always be reviewed and checked carefully to ensure they are in the tenants' interests and do not restrict or prohibit any future plans to expand or move premises," said Greg.



Greg Callard, commercial property solicitor, Withy King

Franchising is not suitable for everyone. For example, there are additional costs to consider when buying into a franchise and some entrepreneurs may not feel comfortable with the restrictions placed on them by the franchisor. Like every new business journey, it's important to explore all the options, ask lots of questions, take professional advice and ultimately choose a model which plays to your strengths and allows you to realise your aspirations.