

Buying a franchise

Are you considering starting a new business, or extending your existing business interests? If so, have you thought about buying a franchise?

A franchise is a method of running an enterprise with a 'blueprint' designed by a franchiser licensed to the franchisee.

- In the UK, there are currently more than 901 different businesses run as franchises, across a broad range of categories
- There are an estimated 621,000 people directly employed in franchising
- The average turnover of about half of franchises is in the region of £250,000. The combined turnover of franchises in the UK presently stands in excess of £15.1 billion
- The most common franchises are in the catering, retail, and construction sectors
- The UK British franchise association advises that over 97% of these franchises are profitable 5 years down the line
- The internet is the main recruitment channel
- Property services is the largest sector and personal services the second
- Franchisees' satisfaction with their franchisor has never been higher, with 91% saying they are 'mainly' or 'definitely' satisfied
- Some 29% of franchisees now run multiple units
- 80% of franchise brands in this country are UK owned and developed

When you become a franchisee, you buy the rights and obligations to run a small business, using the brand and operating the system provided by the franchiser. You also receive continuing support, which usually includes:

- Training
- National promotion
- Administration services
- Ongoing product, service, and system development

How much you pay for these services will usually be calculated as a proportion of turnover. Beware of franchisers who require you to pay fees irrespective of your business success.

When you buy a franchise, you benefit from:

- The use of a tried and tested format, with substantially reduced chances of making mistakes
- A brand with a name and reputation already established
- A failure rate lower than for independent businesses
- The ability to sell or assign business easily - and to realise any capital gains earned
- A form of self-employment
- More favourable treatment from banks, with many prepared to consider offering franchisees up to two-thirds of the total investment

However, there are also minuses:

- An element of risk in choosing the right franchiser
- Potentially considerable initial outlay
- The need to pay continuing fees
- A limited ability to run the business your own way
- Dependency on the franchiser and other franchisees

You need to do thorough research before choosing a franchise:

- Check that the franchiser is a member of the British Franchise Association, whose members are bound by a code of conduct and have a proven track record
- Examine the franchiser's accounts to ensure that the business has traded successfully, and that the franchiser is solvent
- Consider the market potential of the concept, and its ability to generate an adequate return
- With expert advice, check the franchise agreement (N.B. there are no laws specifically governing franchising)
- Establish clearly what you will be receiving in exchange for your investment - not only at the outset but throughout the duration of the contract, which could be as long as 20 years
- Obtain a list of past and present franchisees from the franchiser, and ask them about their experiences
- Ensure that the projections of the franchiser's plan reflect actual performances

We can provide expert assistance and advice in a number of areas:

- Guidance on the terms of the franchise agreement
- Preparation of your business plan
- Arranging finance
- Bookkeeping, computerised accounting packages, cloud-based solutions, PAYE, auto-enrolment and VAT
- Preparation of your financial statements and tax planning
- Practical advice on how best to grow your business
- Tax relief on franchise payments

Why not arrange for an initial consultation and feasibility study?

If you want to investigate the possibility of buying a franchise, start by researching what would be the right one for you. Then invest time and money in expert, professional advice before making a final decision. You should allow time for this process.

Don't be misled into thinking that buying a franchise is 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 consideration.