

# Is Franchising RIGHT FOR ME?

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The focus of this chapter is on you, as a potential franchisee. It is not about which franchise is best to buy or what to watch out for when buying a franchise – it's about whether franchising is right for you.

Before we can examine your fit for franchising, you need to understand that there are many types of franchise models and even within the same industry you can come across a variety of approaches to franchising as franchisors have designed their commercial and legal models to fit specific strategies or objectives. However we can categorise franchises into three broad types .....and your fit is likely to change based on the type of franchise you are considering.

## SUB FRANCHISES

Sub franchises are the most common type of franchises in Australia. Here you have a direct contractual relationship with the franchisor to operate a site or territory under their brand and system. Usually it is a single site or territory but may also involve multiple sites or territories.

New entrants to the franchise market most often purchase a sub franchise as the size of the business, the money needed to fund and operate it and the labour to support it fit within the means of the average person coming out of employed roles and starting a business for the first time.

The franchisors usually provide initial and ongoing training to new franchisees as well as support in setting up the new business or site. Sometimes they



even involve the franchisor providing a complete 'turnkey package' where they have found the site, conducted the fitout and set everything up so all you have to do is pay the money, attend training and get ready to start trading.

### AREA FRANCHISES

Area franchises can also be known as area development or franchise development arrangements. Here, the franchisor grants the rights to a franchisee to develop and operate a larger territory or series of sites. It may be the rights to develop stores or provide services across, for example, all of New South Wales or large parts of Australia.

These franchisors may be international businesses looking to have one or a small number of franchise partners in the Australian market or it could be a domestic franchisor that does not want to or does not have the financial resources to operate a franchise network with a large number of franchisees. Either way, the franchisee in this sort of arrangement will typically be a more experienced business person or group with the financial and

marketing resources to run a larger business and work to a series of agreed performance milestones for growth or sales performance of the business. It is also common in these arrangements for franchisees to be rewarded with a share of profits or some buy out formula if they have created the agreed value in the network before exiting.

### MASTER FRANCHISES

The master franchisee is the 'middle man' between the franchisor and sub franchisees.

Unlike the sub franchise model where the franchisee has a direct relationship with the franchisor, under the master franchise model their relationship is with the master franchisee.

The master franchisee has purchased the rights to develop, operate and provide services to a series of sub franchisees within an agreed area. In Australia, master franchises are most often divided along State lines, so you have a master franchisee for Victoria, another for Queensland, another for New South Wales etc. They sell the franchises in their area and they support the franchisees. You may even need

to buy your stock from them. In effect, they become your franchisor and your contract is directly with them.

### UNDERSTANDING WHAT YOU ARE GETTING INTO

In all forms of franchise models you are entering into a fixed term contract to develop and operate a business under the brand and systems determined by your franchisor. They have a model, a product or service range and a brand that has usually been tested in the market and they have worked out the best practices and success factors to make a site or territory viable.

You are buying access to their intellectual property and business systems and the franchise agreements will bind you to follow their systems and rules and they may even require you to achieve minimum levels of sales or performance standards. The upside for you is the prospect of a more successful business than if you started one yourself, the training and support that comes with being part of a group and the potential for capital gains when you sell your business later on. The brand and the success of other franchisees



has the ability to add a premium to the sale price.

Most franchisees buy a franchise because they want to make money. They want to establish a strong cashflow that can support their wages and savings plans and they want to sell their business at a price higher than what they bought it for, so money and wealth creation is a driver in 99 per cent of cases.

Most franchisors want you to make money. When you make money, so do they. Their revenue streams are usually derived from royalties you pay them, products or services you sell for them and fees you pay on the expansion or eventual sale of your business. So if you are shy about making money or talking about money, then this is one of the first things you need to overcome to be a successful franchisee.

### IS FRANCHISING RIGHT FOR YOU? – GENERAL CRITERIA

Whether you are looking to buy a shop based franchise, a service based franchise or a mobile style franchise there are some common requirements that you must acknowledge and accept if you are to enjoy working in your franchised business and being part of a franchised group.

- Recognise that a franchise is a business. It is not just a job.
- Recognise that the franchise is your business. Therefore it is your primary responsibility to make it work.
- Know what you enjoy and what you don't. Find a franchise that enables what you enjoy and trains or supports you in what you don't.
- Understand what your personal expenses and investment criteria are. Starting a business can require significant investment outlays and some franchises generate cashflow faster and stronger than others. If you do not have sufficient money to pay for the franchise and support it during the startup period then you will eat into your lifestyle and home expenses and impact your quality of life or family situation. Make sure you have extra money or an alternate income to fall back on.

- Think about your home or family situation. Does your family support your decision to start or buy a business and do you all understand the risks and requirements of being in business and part of a franchised group?
- You need to believe in the power of the brand and be proud to represent that brand and wear their uniforms.
- You need to be customer focused and recognise sometimes your customers are also the same customers for other franchisees as well (eg McDonalds customers dine at multiple McDonalds outlets).
- If your franchise requires you to sell products, you need to be a proactive and effective sales person, not just sit in your office or store waiting for customers to arrive.
- You need to be a team player and work collaboratively with your franchisor and other franchisees.
- You need to be prepared to follow directions, systems and group requirements.
- You need to be trainable and open to learning and following specific procedures.
- You need to be focused and keep focused on your business and your role in that business.
- If your business requires staff, you need to be able to attract, train, manage and motivate your staff.

### IS FRANCHISING RIGHT FOR YOU UNDER A SUB FRANCHISE MODEL?

The key things under a sub franchise model are to have the sustained motivation to develop the business, sufficient money to do it properly and consistently without having to dip into daily lifestyle or home budgets and also being the type of person that can work independently but also follow systems and rules. If you want to reinvent the franchise, the product range, the pricing or company policies then you are best to set up your own business and not join a franchise. Franchises thrive on the power of the group providing consistency of service and quality

standards as well as the power of group branding and marketing. You can run your own business in a structured and supported environment but you are tied into the culture of 'we all do it this way'. In most cases that is the safest approach anyway as it is the proven business method and it is really what you are paying for, access to brand, products, suppliers and best practice procedures.

### IS FRANCHISING RIGHT FOR YOU UNDER AN AREA FRANCHISE MODEL?

To be a successful area franchisee you need significantly more experience, resources and financial depth than a typical sub franchise. You are taking on a larger business and usually a tight set of business development targets such as sales performance, rollout of a certain number of stores or operators within a specific period etc.

Your industry knowledge and business acumen will be critical as well as planning and team management skills.

Often, area franchisees are partnerships or small companies with a mix of people with specific backgrounds such as marketing, sales, retailing, franchise development and/or finance. Unless you have come from an external role or corporate position that encompasses many of these skill groups, it may be difficult to meet the criteria to qualify as an area franchisee. However, if you are serious about running a larger business you may always team up with colleagues or family to assemble the small team needed to drive and support this style of franchise but it is usually a big stretch for a first time business owner.

### IS FRANCHISING RIGHT FOR YOU UNDER A MASTER FRANCHISE MODEL?

This scenario has two parts:

1. Would you make a good master franchisee yourself? and
2. Is being the sub franchisee of a master franchisee right for you?

Master franchising is similar to area franchising in that you are usually developing a larger area or team and



your contract requires you to sell a certain number of sub franchises and/ or product within a specific timeframe. In turn this requires different management skill sets and more money to purchase and operate. The financial returns can be very good but usually the returns eventuate in the medium to longer term so if you don't have a lot of money or need faster returns then master franchising is probably not the best option for you.

Being the sub franchisee to a master franchisee comes with many of the considerations outlined above for being a normal sub franchisee. There are overarching rules for the entire franchise brand and group and then there are local rules and terms that are unique to the master franchisees requirements.

A good master franchisee can provide strong and localised support for the sub franchisees in their network. A bad

master franchisee can adversely affect your business so the quality of your master franchisee, your relationship with them and how they are supported or governed by the head franchisor will all influence your success and enjoyment of your business with them. The key with being a sub franchisee under a master is to respect their role, treat them like your franchisor but also keep an eye on how other parts of the group are going to make sure you are getting the best quality and level of support possible. If you are not, you need to be the sort of person that is prepared to try and make it work with the master franchisee but ultimately if it cannot, then be prepared to go over their head for the sake of the brand and your local businesses.

#### FINAL WORD

Ultimately, franchising is a business and it is your business. To get the most out of being part of a franchised group you

need to bring your energy, resources and team mindset to the group. You own a standalone business but you share a brand and business system and the same set of procedures and rules govern everyone in the group. This structure, consistency and best practice can create a lot of financial value for you and your fellow franchisees but at the end of the day any business requires sustained effort, good management, ongoing marketing and superior customer experience. Franchising will be a good choice for you if you recognise these factors and can enhance them by leveraging the knowledge and resources of your franchise group.

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