

NatWest / bfa Annual Franchise Survey 2010 - Summary

The British Franchise Association (bfa) and NatWest Bank conduct an annual survey, now in its 26th year, into the franchise industry in the UK. Listed below are the key findings from the survey:

A copy of the full survey can be purchased from the BFA bookshop at www.thebfa.org/pressroom/bookshop.asp.

Turnover

The estimated annual turnover of the business format franchise sector is £11.8 billion (£11.4bn in 2008).

Franchisors

- Using a strict definition of business format franchising, the number of active franchises identified was 845. This represents an increase of only 7 franchisors, however this hides the fact that there were a large number of franchisors that were included in 2008 that ceased to franchise and a large number of new franchisors, which included Orange, the mobile phone retailer.
- 83% of franchisors operate an independent system, 9% as a subsidiary of a parent company and 8% on a master licensee basis.
- On average franchise systems have been operating for between 9 and 10 years, a slight reduction in the 11 reported last time, but not unsurprising given the large number of new franchisors.
- The cost to a business in setting up as a franchise in the first year ranges from £25,000 to £900,000, with the average being £150,000 - £170,000 that has remained fairly static at this level for a number of years.

Franchisees

- The number of non-dairy franchised units is estimated at 34,800.
- The mean average annual sales per unit was over £335,000, a similar figure on 2009, again not surprising given the economic situation. However this remains only the fifth time £300,000 was breached. This however reflects a wide range in individual unit turnover.
- Overall franchisee 'churn' was 6.7%. This was made up of natural causes (3.6%), such as retirement, resales and ill health and financial failure (2.1%). This failure rate was lower than 2008 and equates to 893 units. It is fair to say that these units have been restricted to a small number of franchisors. Additionally franchisees of franchisors that failed during 2009 are not included in this figure, as clearly they no longer franchise. Those franchisors that now no longer franchise had 2,400 units in the 2008 study.

- 33% of those who responded operate on a sole trader basis, 13% partnerships and 53% limited companies.
- The average age of a franchisee is identical to 2008 at 47, with those having just started having an average age of 42. Also confirming the stability and maturity of the sector is the average time a franchisee has been running their business. In 1992 the figure was 3.9 years and this time it was again 7.5 years (as it was in 2008).
- Interestingly 13% of new franchisees came from an Asian background and typically British Indians.

Checks taken by a potential franchisee prior to purchasing a Franchise

Franchisees now undertake a number of activities before purchasing a franchise, which include asking existing franchisees whether their business was profitable (79%), making an assessment on whether fees are value for money (74%) and asking their accountant (71%). Interestingly 50% seek advice from a non-BFA solicitor and 25% from an affiliated one, where our advice is always to ask an affiliated lawyer.

Employment

The employment generated by franchising is at the core of its contribution to the economy as a whole. It is calculated that some 465,000 people are directly employed in the franchising sector, an almost identical number to the 2008 record of 467,000.

Profitability

The proportion of franchisees reporting profitability in the survey was 89% (compared with 70% in the last recession of the 90's). This is good news when looked at in conjunction with the low failure rates and recession on 2009, as only a 1% drop in the 2008 reported figure. Additionally 1 in 3 franchisees advised they had a better 2009 than 2008 and particularly the second half of the year. 37% reported a poorer situation.

On a more negative front 24% of franchisees said they did better than expected and 36% worse when taking into account what they were told by the franchisor at the outset

Recruiting franchisees

- On average it takes a franchisee 4 months to decide to purchase a franchise and a further 2 months to be trained and set up in business. Therefore it can take a new franchisor up to 6 months to recruit their first franchisee. This demonstrates a trend towards a shortening in this period over the last few years, however it hides an underlying difference dependent on the sector. For Hotel and Catering the time is 7.7 months, reflecting the delays associated with finding/securing the premises and transport and vehicle services it is 4.2 months.

- This year the biggest barrier to a franchisors growth is the lack of investment/financial backing (53% - though down from 56% in 2008), lack of suitable franchisees (51% - which was only 36% in 2008) and third the economy (44% - 56% and the biggest barrier in 2008).

Regional distribution

This year's figures again show that regional representation is now apparent across all areas of the UK, though 1 in 3 franchisees are based in London and the south east.

Franchisee profile sought by franchisors

Franchisors do not require their franchisees to have any specific skills or experience looking for a combination of skills such as self motivation, marketing, sales, business, drive and commitment.

Finance

- The average initial outlay for setting up a franchise is £63,900, though again this varies dependent on the sector.
- Finance is needed by 58% of franchisees when setting up. Banks continue to be the most important overall source of finance (84%).
- The average amount borrowed, by those that do, was £51,500, with 36% needing to borrow in excess of £50,000
- The average ongoing management service fee is 11.2% (8.2% in 2008 and 7.5% in 2007); the highest ever reported and average advertising levy is 2.6% (3.9% and 1.9%) of franchisee's turnover respectively. Overall ongoing costs increased to 13.3%, up from 12.65 in 2008.
- The average franchise fee is now £15,300, the average investment £46,700, though in the hotel and catering sector it is £83,000 and £29,900 in the property sector.
- NatWest remains the market leader for franchisors and franchisees banking.

Franchisor-franchisee relationships

Franchisor-franchisee relationship is of great importance in determining the success of the business and reassuringly 84% of franchisees regard their relationship as satisfactory. The majority of those that were dissatisfied unsurprisingly were also loss making.



Outlook

The franchising marketplace as a whole is generally optimistic about their future, although less so about the economy generally. When asked about their expectations over the next 12 months 78% of franchisors (55% in 2008) and 55% of franchisees (35%) forecast an improvement in their business. These are significant increases on 2008 and again not really surprising as we leave the recession.

Overseas trading

278 franchisors have an operation elsewhere in the world.

Notes

Note 1: The information in this document is extracted from the 26th annual research study sponsored by NatWest.