

## *Becoming a Franchisee Fact Sheet*

Have you always dreamt of having your own business, but are concerned whether you have the skills or knowledge to make it work? Instead of going it alone and learning by your mistakes, why not franchise? Obtaining a franchise allows you to run your own business (as the franchisee) using the tried and tested methods of someone who has made a success of their business (the franchisor).

### **WHAT IS FRANCHISING?**

In "Business format franchising" you (the franchisee) purchase a licence giving you the right to replicate an existing business using the franchisor's trade name and proven operating method. You will pay an initial upfront franchise fee to have this right and then pay ongoing fees (usually monthly) based on either a percentage of your turnover or a fixed monthly fee.

### **WHAT SHOULD YOU GET FOR YOUR MONEY?**

When you buy a franchise there are a number of things that you should expect:

- ✓ A tried and tested product or service
- ✓ A profitable proven business model
- ✓ The experience and know-how of the franchisor
- ✓ The entitlement to use the franchisor's trade name and or trade mark
- ✓ The ongoing support and support of the franchisor.

In essence when you become a franchisee, you should expect to get everything you need to operate the business successfully and profitably.

### **WHAT IS EXPECTED OF YOU?**

As a franchisee, you must be prepared to follow the rules and restrictions placed on you by the franchisor. It is their business model and you must respect that fact. Having spent money buying a proven, profitable business model, why would you want to change it?

The franchisor will expect and it will be included within the Franchise Agreement, that you must provide the franchisor with regular information on how your business is performing. The franchisor should use this to monitor what you are doing and identify where you may require additional help.

When you buy a franchise you normally get an exclusive area within which to operate your business, which ensures you do not have direct competition from anyone else in the franchise. If you have an exclusive area, most franchisors will expect you to maximise the potential of your area, especially if the ongoing fees are based on a percentage of your turnover. Therefore it is usual for Franchise Agreements to include minimum performance clauses, including minimum quarterly sales levels that you must achieve.

### **WHAT CAN YOU EXPECT OF THE FRANCHISOR?**

Given that the success of the franchise brand is intrinsically linked to the success of the franchisees within its network, it is in the interest of the franchisor to give you all the support you need. This support should come in various ways:

- ✓ Initial training to allow you to operate the business successfully. This should include general business skills as well as technical product knowledge
- ✓ A detailed Franchise Operations Manual stipulating how you must operate each part of your business
- ✓ Access to branded marketing material
- ✓ Ongoing support and advice to help you be successful.

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## WHAT ARE THE COSTS?

There are a number of different costs to become and run a franchise.

### *Fees paid to the franchisor:*

#### ✓ **Initial Franchise Fee**

(This is normally made up of 3 elements: 1) The fee to have the right to become a franchisee; 2) the set-up costs required to open and start trading as a franchisee 3) working capital to see you through the first months whilst you are establishing your business.)

#### ✓ **Set-Up Package Fee**

(This is the cost of everything you will require to start running your franchise business. This will vary between each franchise but as an example if you had a restaurant franchise the Set-Up package would include the cost of fitting out the restaurant; staff uniform; stock; IT systems; menu's etc.)

#### ✓ **Management Services Fee (MSF)**

(Normally between 7% and 15% of your turnover is paid to the franchisor as an ongoing fee.)

#### ✓ **Mark-up on Goods**

(Depending on the type of franchise, the franchisor may insist that you buy stock or goods only from them. Sometimes the franchisor may make a small mark-up on these goods)

#### ✓ **National Marketing Fee**

(Normally between 1% and 5% of your turnover is paid to the franchisor and used by the franchisor to pay for national marketing for the benefit of all franchisees. Franchisees will still be responsible for the cost of their own local marketing.)

### *Other fees:*

**The process of buying a franchise will also incur certain costs such as:**

#### ✓ **Legal Fees**

(It is imperative that you get an experienced franchise lawyer to review the franchise agreement, as this is a contractual and legally binding document. Although most franchisors will not allow franchisees to change any of the clauses within the franchise agreement as it needs to be uniform for all franchisees, it is important to know what your obligations are and those of the franchisor. A list of accredited franchise lawyers can be found at [www.thebfa.org](http://www.thebfa.org))

#### ✓ **Travel and subsistence**

(Often you will have costs associated with travelling to meet the franchisor, attending training, and doing your homework on the franchise by visiting existing franchisees to find out what being a franchisee is really like)

## HOW CAN EWIF HELP

Your commitment in both capital and time to become a franchisee will be significant. You need to think through the process carefully. EWIF is a non for profit organisation made up of people from within the franchising industry who wish to help and encourage more women into franchising. You can access free information about becoming a franchisee from the EWIF website and many of our members offer some free advice to help you decide what franchise is right for you. For further information visit [www.ewif.org](http://www.ewif.org)

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