

BENEFITS OF A FRANCHISE BUSINESS

1. TRADE NAME:

FRANCHISE:

As a franchisee, you have the right to use an established trade name, marks, logo and style. Your unit will be indistinguishable from others in the network. However, customers could – and should – be made aware of local ownership.

INDEPENDENT BUSINESS:

You will need to establish your own name. This can take a long time, and as they say: “in business, time is money”. The name will not be national, but customers will be aware of local ownership.

2. KNOWN PRODUCT OF SERVICE:

FRANCHISE:

Your product / service will have public acceptance. It is a major benefit if the network as a whole has a sound reputation, but could be a drawback if other franchisees within the network perform badly.

INDEPENDENT BUSINESS:

It takes a long time to establish a product / serviced that meets the needs of its target customer base and build up public acceptance.

3. TRAINING:

FRANCHISE:

Training is essential, especially but not only if you are changing career. It provides you with the ability to use new technology, handle financial and staff management and gives you the confidence and skills required to operate a business successfully.

INDEPENDENT BUSINESS:

Your business will be based round your skills or hobbies. Business results will depend entirely on your own capabilities and dedication – there will be nobody to guide you.

4. PROVEN BUSINESS:

FRANCHISE:

A solid franchise will offer irrefutable evidence that the business has worked well elsewhere. However, this does not guarantee that it will work everywhere. Every franchisor should have carried out a viability study in your target market.

INDEPENDENT BUSINESS:

Your business will be new and unproven – the onus is on you to establish the likelihood of success.

5. PACKAGE:

FRANCHISE:

You are investing in a complete business franchise format that has been proven elsewhere and possibly even has an established following in your target territory.

INDEPENDENT BUSINESS:

As you will have little external support, your business is likely to start small and will require time to develop. In the meantime, overheads are building up, not to speak of lost opportunities costs.

6. ADVERTISING:

FRANCHISE:

National advertising is the responsibility of the franchisor while local advertising will be undertaken by you. However, the franchisor is likely to offer guidance and even provide advertising materials.

INDEPENDENT BUSINESS:

This is entirely down to you. You have to devise and produce your own material and are responsible for media selection. Moreover, you are unlikely to qualify for discounts often offered to large groups.

7. SOURCING:

FRANCHISE:

Franchisors will specify the range of products and / or services you will carry. On occasion, franchisors may be the sole source of certain supplies. Either way, you should be able to benefit from bulk discount arrangements negotiated by the franchisor on the network's behalf.

INDEPENDENT BUSINESS:

You are free to determine the range of products and / or services you wish to offer. Moreover, you can shop around to get the best deals. However, as you will be buying in small quantities, initially at least, you are unlikely to receive substantial discounts.

8. ON-GOING HELP & SUPPORT:

FRANCHISE:

You have access to an operations and procedures manual. In appropriate circumstances, a troubleshooting service may also be available. Moreover, a field service consultant (FSC) will visit you and offer on-site assistance.

INDEPENDENT BUSINESS:

You are on your own – the buck stops with you every time. You could hire an outside consultant – at a price – but he is unlikely to be familiar with your specific needs.

9. LOCATION:

FRANCHISE:

The franchisor should assist with the selection of the optimal location for the business. In any event, the franchisor will reserve the right to approve the site.

INDEPENDENT BUSINESS:

You are free to make good or bad choices in site selection, and have to live with the consequences. Expert advice may be available – at a price – but it is unlikely that the expert understands your needs fully.

10. OWNERSHIP:

FRANCHISE:

Although you own the business, operation is subject to the clauses contained in the franchise agreement. Among other things, your right to sell the business is likely to be limited. The franchisor may reserve the right to purchase the business from you, or approve the incoming franchisee. Keep in mind that franchises are usually granted for a fixed period, with a right to renew, then it is back to the negotiating table.

INDEPENDENT BUSINESS:

You are free to sell or dispose of the business at any time to anyone. No one else has the right to terminate the business for as long as it is solvent.

11. SELLING THE BUSINESS:

FRANCHISE:

Should you wish to sell the business, the franchisor may be prepared to purchase it from you, or may have a buyer lined up.

INDEPENDENT BUSINESS:

You have to find your own buyer.

Now that you know how a franchise operates, you need to ask yourself whether you are, firstly, ready to become an entrepreneur, Secondly, you need to decide whether you want to explore new ground, with all the attendant risks, or invest in a venture that offers a solid chance for success.

The article headed [EVALUATING A FRANCHISE OFFER PROVIDES ADDITIONAL GUIDANCE](#).

DISADVANTAGES OF FRANCHISING

Franchising also has drawbacks and it is important that you understand them fully before you enter into any binding commitment. These drawbacks fall into three categories:

1. Limitations on Independence
2. Inflexibility
3. Risk associated with the network's overall performance.

Let us look at these in sequence:

1. Limitations on Independence:

An important feature of franchising is that every aspect of the business format is defined and each unit conforms. Not everyone will be happy to operate a business under such constraints and you need to do some soul searching here. While you do, keep in mind that in the SME environment, and indeed in any business, "independence" is a relative term. No matter what business you are in, and even if you operate it independently, market realities, including the whims of major customers, can – and often will – influence the way you operate.

Discipline:

Being a franchisee requires a great deal of self-discipline.

On the one hand, you are the boss and nobody will control your routine movements. You need to be able to put in the required hours and the necessary enthusiasm to ensure the success of the business.

On the other hand, you are working within a system in which there is little scope for creativity. Almost every aspect of operating the business is laid down in the operations and procedures manual. To exacerbate matters, franchisor representatives can be relied upon to ensure that you adhere to the proven guidelines.

This is not necessarily a bad thing. It protects you against rushing into decisions you may regret later. Moreover, recent developments, especially in the USA, point towards a move away from the concept of "the franchisee as a blind follower", towards "the franchisee as the regional developer of the brand". If this trend hasn't taken root in South Africa already, it will only be a matter of time until it does. Once this happens, networks that go this route will offer franchisees who can demonstrate commitment to the brand almost limitless opportunities for growth.

It all goes back to selection. You need to identify a system that offers you a good culture fit and is prepared to accommodate your abilities as well as your aims and ambitions.

Monitoring by the franchisor:

While initially, almost every franchisee welcomes visits by the franchisor's field service representatives, some soon begin to see them as unnecessary interference. After all, they reason, "I am now able to do my own trouble-shooting, so that do I need this person to come into my business and criticise the way I run it?"

Admittedly, this is human nature, but shortsighted nonetheless. You invest in a franchise precisely because it functions like the proverbial well-oiled machine. Isn't it fair and reasonable, then, that the franchisor expects you to stick to the network's proven systems and procedures once you are a franchisee? Several issues are at stake:

- The franchisor supplies you with a blueprint for business success. Unless you use the blueprint as intended, its efficacy becomes suspect.
- The brand's followers – your customers – do business with you precisely because of the perceived brand promise. Any deviation from the network's standards puts this promise into question. Not only would this impact negatively on the business performance of your own unit but also would impact negatively on the reputation of other members of the network.
- Having made a substantial investment into their business units, other members of the network expect the franchisor to protect their business interests. They would revolt, should the franchisor stand idly by while you damage the reputation of the brand.

Franchise fees:

During the early stages of the franchise relationship, the franchisee depends on the franchisor's assistance and usually does not mind paying ongoing fees. As time goes on, however, the franchisee is likely to become more self-sufficient. Eventually, he may resent paying these fees.

Research has shown that franchisees go through cycles ranging from total dependency to co-operation, with several stages in-between. This phenomenon has become known as the Franchisee lifecycle syndrome.

Reputation:

Each outlet operating under the network's brand, regardless of whether it is operated by the franchisor or a franchisee, has the capacity to affect the reputation of the whole system. If there is a wide disparity in service quality from one outlet to the next, it will harm the reputation of the brand. This can affect the business performance of your unit and you have little power to change it.

2. Inflexibility:

Responding to the market:

In certain circumstances, franchising can be an inflexible method of doing business. As a franchisee, you are bound by the franchise contract to operate the business in a carefully prescribed manner. Although the franchisor will have reserved the right to respond to changes in the market, this is unlikely to happen without a process of consultation. This tends to make the introduction of changes to the system, for example changes to the business format, the corporate identity or the product range, a slow process. It can be frustrating for individual franchisees not to be able to respond swiftly to the emergence of new trends in the local market, or the arrival of a local competitor.

On the positive side, it protects you against responding to fads that lack staying power. This prevents you from implementing “knee-jerk reactions” which could upset suppliers, staff and longstanding customers for no good reason and may be costly to rectify.

The daily work routine:

What may seem an exciting challenge when you look in from the outside could soon turn into a boring routine. It is important, therefore, that you have passion for the product your franchise offers. And if it is your goal to grow the business, you need to ensure that your territory offers realistic potential. Once again, careful selection is the key!

3. Risks arising from poor franchisor performance:

Presenting something as a franchise does not automatically turn it into a successful concept. Unfortunately, not all franchises are soundly based or well run. When you sign the franchise agreement, you are formally binding yourself to a specific network, so beware. It is vital to select one that is competent and ethical. In practice, you will come across three main categories of franchisors:

- The established franchisor
- The new franchisor
- Franchisors to be avoided

Let us examine the pros and cons of dealing with them:

The Established Franchisor:

This represents the least risky type of franchise opportunity.

- The business format will have been fully tested in a number of locations and has evolved into a blueprint for business success.
- During the initial stage in your investigation, you can approach established franchisees within the network, observe them in action and ask for feedback.
- Once you have joined the network, you have, in addition to a well-developed support infrastructure operated by the franchisor, a group of peers you can use as a sounding board.
- It is reasonable to assume that the longer the brand has been in operation, the better its reputation in the market place will be. This offers various advantages, including enhanced effectiveness of advertising campaigns, strong bulk purchasing power and the potential for reaching breakeven more quickly.
- Although the initial investment you will be asked to make may be higher than if you would join a relatively unknown venture, this proposition will be highly attractive to anyone for whom security is important.

The New Franchisor:

There is nothing intrinsically wrong with joining a new franchise – everyone has to start at some point. You need to be careful, however, to ensure that you do not invest in an opportunity that is not sufficiently developed, and end up as a guinea pig. Things to watch out for include:

- Has the franchisor operated the core business for a reasonable period and is it demonstrably successful?
- Is it likely to appeal to customers / users in other parts of the country?
- Has the concept been fine-tuned to ensure that business efficiencies are maximised?
- Does a comprehensive operations and procedures manual exist?

- Is the franchisor soundly funded? During the start-up phase, the franchisor is vulnerable to financial problems if franchises cannot be sold quickly enough. Unless the franchisor has adequate financial reserves, more effort is likely to go into selling franchises than providing support to franchisees.

These obvious risks must be assessed against the potential for higher returns. Cases are on record where franchisees who joined a network during the take-off phase have achieved phenomenal returns on their investment. This will be the case if, for example,

- The product or service is outstanding in some way and market acceptance has been established yet competition is limited or non-existent.
- A larger territory can be negotiated, or you could secure options for additional territories.
- Early entrants stand a better chance of co-determining the strategic direction the network will take than franchisees who join a well-established network with an entrenched management structure.

At the end of the day, it depends on your appetite for risk. This type of franchise may be attractive, or be one you should avoid at all costs. Should you come across a self-styled franchisor whose concept impresses you, but the franchise infrastructure has not yet been adequately developed, you may want to consider a joint venture. This would give you a bigger say in the direction the business takes, and if your hunch pays off, you would own a stake in the franchisor company rather than in just one unit.

Franchisors to be Avoided

These come in various disguises, for example:

The incompetent franchisor – Such a franchisor does not offer franchises to perpetrate fraud but is simply incompetent. The basic business may be unsound, the franchise may be hopelessly under-resourced or the franchisor is inept.

A business is unsound if the product or service on which it is based lacks the potential for profitable sales. A competent franchisor will test the business concept both through market research and by operating a pilot outlet before offering franchise opportunities for sale. An incompetent franchisor is unlikely to do either of these things.

In addition, it is expensive to become an ethical and competent franchisor. If the business format is tested thoroughly, the franchisor will need to carry the establishment costs for up to two years before seeing returns. An under-resourced franchisor will be unable to sustain this period. Start-up assistance and operating manuals will be of poor quality and the franchisor is unlikely to have the infrastructure in place to provide a high standard of ongoing support.

This can be particularly important if you are considering a franchise opportunity where your outlet will be located far away from head office, with no other franchisees operating in the vicinity. Under this scenario, the cost of providing support will weigh heavily on the franchisor.

The inept franchisor – means well but has little understanding of how and why the system works, or how the product or service will be brought to market. This type of franchisor is perhaps the most dangerous of all. His enthusiasm is infectious and this can cause untold harm to gullible franchisees. They will be persuaded to invest their hard-earned cash into a poorly developed venture with no real prospect of earning adequate returns.

The unethical franchisor – This type of franchisors has no real intention of entering into a long-term support relationship with the franchisee. Rather, he sees franchising as a way to make quick money by convincing starry-eyed would-be franchisees of the potential to earn riches for themselves.

This is done by setting up a shell franchise – lots on offer (on paper) but nothing to back it up in reality. The “franchisor” attracts investments from hapless individuals who are so taken in by his smoke and mirror approach that they fail to make a thorough appraisal of the business on offer. At the end of the day, these are the same people who, once their investment has evaporated in thin air, will be quick to blame the concept of franchising for their misfortune.

Your best protection against falling victim to this type of “franchisor” is to take time to learn all you can about franchising, and investigate different opportunities. Joining a franchised network demands an investment of such magnitude that you simply cannot afford to learn from your mistakes.

Important Pointer

You need to recognise that the franchise is a long-term relationship, and things can change along the way. It is best not to rely on the promises of one individual, or a given set of circumstances, but to step back and take a look at the overall direction the network is likely to take. Ask yourself: How likely is it that the franchisor company will change direction, for instance, if it is taken over by another company, or if it moves into international markets, and how will this affect me?