

# Franchising a business - the myths

By Clive Sawyer

Over the coming issues we will look at the critical issues facing those contemplating franchising their business and what happens once a business franchises.

The series will include:

- Contemplating franchising a business - destroying the myths
- Setting up a franchise - how to get it right
- The first year of franchising - the reality
- Franchising in year two - creating a sound foundation for the future
- Franchising in years three to five - new horizons
- Franchising for the established franchisor - maximising the potential of the network

***Many people have heard of franchising and this has led to many myths about what franchising actually is and how to go about it. In this issue we will consider five myths about franchising a business:***

## **Myth 1:**

**It is a cheap option as the franchisees use their own money:**

This is perhaps the most common misconception about franchising that I come across. It is true that franchising a business requires a lot less financial and operational resources than establishing a network of company owned outlets. However, it does still require a sizeable financial investment. Typically, businesses looking to franchise will have to budget to spend in the region of £20,000 to set up the franchise. At least the same amount is spent again advertising the franchise opportunity before they even start to see any financial return, through the initial licence fees and the ongoing management / royalty fees.

## **Myth 2:**

**It is an “easy option” because they do all the work**

Most businesses I meet initially fail to appreciate the level of support required to have a successful franchise

network. It is correct that a franchisee will own their own business and therefore will be ultimately responsible for the success or failure of that franchise business. It is critical, however, that prospective franchisors should not underestimate the workload required to support their franchisees. The majority of franchisors charge a percentage of turnover as an ongoing management / royalty fee. The franchisee will expect, in return for this fee, the support and guidance of the franchisor to ensure that their opportunities are maximised and their issues are addressed. It is therefore essential that the franchisor provides proper and adequate support to ensure the success of their franchisees.

The quality of support provided will have a direct impact on not only income stream for the franchisor but also on future franchisee recruitment. Prospective franchisees are encouraged by all franchise professionals to speak to other franchisees within the network, prior to becoming a franchisee, to ensure that what they have read in the franchise literature and have been told by the franchisor is actually true in practice. If existing franchisees are disgruntled with the level of support provided by the franchisor, this is likely to be conveyed very quickly to any prospective franchisee and is likely to put them off.

Many franchisors, when starting out, will not need a dedicated franchise manager from day one. However, this will need to change as soon as the franchise recruits more than a couple of franchisees. In most businesses it is unrealistic to expect that this support role can be added to an employees work load, so it is important to factor in the cost of a dedicated franchise support manager.



Figures vary as to the conversion rate between numbers of enquiries a franchise needs in order to convert them into one franchisee, but they are in the region of 300 – 350 enquiries to recruit one franchisee.

### Myth 3:

#### You have to run a pilot franchise first

The European Code of Ethics adopted by the British Franchise Association states that businesses looking to franchise should have been successful for a reasonable time and have piloted their business in a separate region before considering starting to franchise.

Franchising is built around the concept of people buying in to a proven, profitable business. This is difficult to prove if a business has never operated in more than one site. There are, however, occasions when a business can point to other companies within its sector which have been successful nationwide and therefore, if the business can replicate their business model, it is shown to be profitable, there may be no need to set up a stand alone pilot.

There may also be strategic reasons why speed in rolling out the franchise makes setting up a pilot franchise operation disadvantageous. This is often the case when a business has launched a new concept and wants to maintain first mover advantage. In these instances, so long as the business can prove it is profitable and that one can realistically expect the business to be a success in other parts of the country, a pilot franchise is not a necessity. It is important to be very open and clear with prospective franchisees and explain the reasons for not having run a pilot franchise and that therefore the risk to them is greater than for a business that has operated in more than one site. Often franchisors will offer a discount on the initial licence fee and/ or a reduction in the first month's ongoing management / royalty fee as recognition of this fact.

### Myth 4:

#### Franchising is very popular, so attracting franchisees is relatively easy

Constantly I see under-spending on franchisee recruitment. It is not a case of, "I'm sure I can find some money for advertising", it is an absolute must. It is true that franchising as a way to owning and running a business is very popular. Not surprisingly, when you consider that, according to the latest NatWest/ British Franchise Association Franchise Survey and the Small Business Service Analytical Unit, 87% of Franchisees claim to be profitable after 3 years compared against 31% for VAT registered businesses, and 92% of all franchisees claim to be profitable. However there are over 750 recognised UK franchises to choose from and probably the same number of unrecognised franchises. The result of this is that new franchises have a lot of competition in attracting franchisees, and are at a disadvantage against established franchises that can prove that their franchisees are successful.

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350 enquiries to recruit one franchisee. To achieve these levels of enquiries, franchisors must be prepared to invest in a wide range of recruitment media, including online franchise portals; off the page franchise magazines; franchise exhibitions; the franchise sections of national newspapers; and for many franchises, trade specific advertising can also be very successful. Prospective franchisors should budget on spending a minimum £1,500 a month advertising their franchise opportunity. The more they can invest in advertising the greater the potential for achieving the necessary levels of enquiries, in a quicker timeframe.

### Myth 5:

#### It is an option to generate income for a struggling business

If your business is failing, sort it out! A failing business will surely lead to a failing franchise. Often businesses hope that the income from the initial franchise licence fee and, to a lesser part, the ongoing management/ royalty fee will provide the necessary income stream to prop up a struggling or failing business. This is the biggest cardinal sin in franchising. Franchising is about replicating an existing successful business model and people paying for that privilege. Most franchises do not require their franchisees to have previous skills as the franchisor, being the expert, will train the franchisee in everything they need to be successful. If the franchisor is not successful then it is ridiculous to expect them to be able to train an inexperienced person so that they can succeed where the franchisor has failed. If a business is failing then it must be sorted out before considering franchising.

### The five myths

The five myths discussed are, of course, not the only things that businesses contemplating franchising need to be aware of; however these are the five most common misconceptions that I come across in my role as a specialist franchise consultant. Furthermore it is important that the individual traits and requirements of each business are considered and that a franchise model is created to meet these rather than making a business change to meet a standard franchise model. In the next issue, "Setting up a franchise – how to get it right" we will be looking at the processes involved with setting up a franchise, the typical costs, and how best to achieve a franchise that works both for you as the franchisor and your future franchisees. ¶¶

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Clive Sawyer, Managing Director of Business Options franchising consultancy, specialises in helping businesses assess whether franchising is a viable option for them and, if so, help them develop a franchise model that really works for their business.