

FRANCHISING

“Good franchising is very good. It is undoubtedly the most efficient, effective distribution system ever invented. Good Franchising is so much better than independent small business operation and bad franchising is so much worse.”
Professor Andrew Terry, University of New South Wales

This is the first in a series of articles about Franchising. Any franchise is not necessarily the golden grail you may be seeking and you may be well advised to compare different franchise opportunities before deciding on one that is right for you. As the good professor said, there are bad ones out there, so do your homework.

Franchising allows people to go into business for themselves, not by themselves. Linda Grant, Franchise Development Manager for ANZ Bank says “We see hundreds of different franchises and there is no ideal in terms of structure or design. What most successful franchise systems do have in common, however, is a strong ongoing relationship between franchisee and franchisor. Co-operation, commitment and communication are the real building blocks of success in franchising. These largely come, not from legal agreements, but from ethical dealings, strong leadership and mutual respect of each party for the goals of the other.”

Benefits of a franchise over starting own business.

- **Reduced Risk** – traditionally franchises have a much lower failure rate than other start-up businesses. You have bought a business concept where the kinks have been straightened out by someone else, who is now in a position to give you ongoing support, which may include recruiting staff, access to market information, etc.
- **A complete package** – systems, established product, proven marketing, equipment, stock and trademarks have taken the guesswork away. Setup costs and wasted effort may be lower, following an already successful pattern.
- **More than one** – You have the buying power of the entire network meaning access to supplies at discounted rates. Also you can share ideas with other franchisees and learn from one another’s mistakes.
- **Finance** – Lenders will sometimes lend more to franchised businesses because of the strength and reputation of the business. More on this in a later article.
- **Co-ordinated Marketing** – You may have national advertising and promotional campaigns for the franchisor, as well as ready copy for your own advertising efforts.

What about any downsides?

- **Lack of Control** – In buying a proven system, there may be limitations on what you can and cannot do in a franchise. If you are more entrepreneurial, you may feel more like a manager than a boss.
- **Cost** – Initial costs to ‘get in’ could be high as the Franchisor has already set a certain standard. Further, royalty fees may have a major impact on cash-flow.
- **Brand decline** – Often a business’s strength can also be its Achilles heel. If the brand loses its appeal to customers, or the Franchisor gets into difficulty, your individual franchise may also suffer.

- **Commitment** – You are locked in to a binding contract, which could be quite restrictive as to business practices, prices, advertising, who you can sell to and at what price, etc.
- **Competitors** – Life would be simpler without them, but that is what keeps business's sharp and what your Franchisor has learned to combat. There are still risks here though. Another similar business could open up next door; a debtor could fail to pay, etc. As a franchise owner your risk may be reduced but not necessarily eliminated.

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