

Article submitted by: **Ted Dewar-Healing**

# How to franchise your business

This section was compiled by Ted Dewar-Healing of DHA Consultants, a British Accreditation Bureau approved Franchise and Marketing Consultant.

Satisfy yourself that the business you are considering expanding by forming a franchise network has a proven history of success. (You will have to prove success to franchisees, lawyers, accountants, bankers, the media and the franchise industry in order to succeed as an ethical franchisor).

Consult an expert or experts on all aspects of creating and marketing a franchise system.

*“A Franchise is a product. To be successful it needs the same initial and long term investment in time, people and money as any new product launch”.*

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### Why companies franchise

**SPEED OF DEVELOPMENT** - A well-constructed and marketed franchise can form a network of outlets quicker than forming a similar size company-managed chain

**FINANCE** - Although considerable investment is needed to create and market a franchise system, income from franchise packages helps finance expansion.

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**MOTIVATION** - Franchisees who have invested their own money into starting a business have a motivation that is hard to generate in an employee.

**LOCAL OPERATORS** - A marketing advantage can often be gained by awarding franchises to franchisees with local knowledge and connections.

## **Business Format Franchising**

The term “Business Format Franchise” is used to define a business system incorporating the elements listed below. The word “franchise” can be used without restriction in the UK to describe any business proposition. By describing a business as a “Business Format Franchise” those involved in franchising and the general public are clear on the principles upon which the business is founded.

### **Elements of a “Business Format Franchise”**

1. a proven business system
2. an Operations Manual (the system)
3. a “pilot” running profitably in the same format as that offered as a franchise
4. a Franchise Agreement
5. a Training Course
6. a Training Manual
7. a support team for training and supporting each franchisee
8. a royalty payment or mark-up on goods supplied
9. a Trading Mark and style that the franchisee is allowed to use under licence by the franchisor

*“A Business Format Franchise... involves the granting of rights by a company (the Franchisor) for a third party (the Franchisee) to operate their business system using a common brand and common format for promoting, managing and administering the business.”*

Quote from the Department of Trade and Industry (DTI) 1998 publication  
“Franchising your Business”

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## Glossary of Franchising Terms

**Business format franchising:** a specific type of franchising where the franchisor enters into a legal contract with the franchisee, granting the right to operate a complete, tried and tested business system, the format, in return for payment.

**Format:** The name given to the business system offered in a business format franchise.

**Franchisee:** The individual or business which is responsible for the day-to-day running of an outlet, often serving a specific geographical territory under the name and format of the franchisor.

**Franchise Fee:** The initial one-off payment charged by the franchisor to cover the license giving the right to operate the system, a share of the franchisors own start-up costs and the cost of recruiting the franchisee.

**Management Services Fee:** Calculated on an on-going basis as a percentage of the franchisee's sales, the management service fee forms the franchisors principle source of income

**Mark up:** A margin placed on goods supplied by the franchisor to the franchisee. Normally either a management fee or a mark up is employed - not both.

**Franchise Package:** The package includes the franchise agreement, the operating manuals and business system, the prospectus and the services offered by the franchisor.

**Franchising:** A business relationship where A, the franchisor, grants B, the franchisee, the right to carry on a particular form of business to which A has property or other rights.

**Franchising Agreement:** The legally binding contract on which the franchising relationship is based. It sets out the franchisors obligations and the franchisees rights and duties.

**Franchisor:** A well established business which decides to expand by replicating its tried and tested concept through businesses which are independently owned. The franchisor is responsible for business strategy, marketing and continuing business support to the network of franchisees.

**Pilot Franchise:** A business running at arms length to the franchisors core business that operates in precisely the same way as is laid down in the franchise operation manual.

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**Operation Manuals:** The documentation which sets down how the franchise is to be run including issues such as supplies, marketing and accounting procedures.

## Stages in the creation of a franchise

### Diagnostic Project:

Prepare a report on the market potential of the company's products through a franchise network. To include:

- Overall market potential
- The market sector best approached by a franchise network
- Market share potential · Competition
- Effect on any existing outlets of the introduction of a franchise network

Research existing franchise operations in the market sector. To include:

- Existing operations
- The marketability of a license in this field
- Their success

Report on the effect of a new distribution network on existing operations. To include:

- Set up costs - including a 'pilot'
- Training inc. personnel time
- Management time
- Franchise sales costs and personnel
- Marketing

### Design a suitable franchise package

- Profile suitable franchisees
- Draw up a timescale of operations for piloting and launching a network
- Investigate local funding sources.

Results achieved by a diagnostic programme:

- A precise basis for making a decision on the suitability of franchising
- Comprehensive foundation for the formation of plans to implement recommendations made in the Diagnostic Report

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## Not every company needs every stage

### The Implementation Project:

- A complete business and marketing plan
- A franchise prospectus to include design and copy
- A franchise agreement - verified by a franchise lawyer
- An operations manual - this is the “system” which records how to duplicate the success of the concept (this can constitute 50% of the Implementation Project)
- A training course
- A franchise award process
- A support programme
- Train existent staff
- Recruit and train additional staff as required

### Results achieved by an implementation project:

- complete franchise is ready for advertising with all systems in place. Not every company needs every stage.

*Note: A franchise consultancy can complete some or all of the above stages. Using the right consultant can achieve the desired result whilst the core company continues business operations.*

## Sources of expert advice

**Book:** ‘How to Franchise your Business’ - available from:

- Franchise World 0208 767 1371
- The Royal Bank of Scotland 0131-523-2178
- Email: [info@franchiseadvice.com](mailto:info@franchiseadvice.com)

**Trade association:** The British Franchise Association

- 01491 578050
- Email: [mailroom@british-franchise.org.uk](mailto:mailroom@british-franchise.org.uk)

**Printed Franchise Directory:** Franchise World Directory. As above.

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## Experts are located within the following organisations.

- Banking
- Franchise lawyers
- Accountants
- Training companies
- Financial Services
- The British Franchise Association
- Publications
- Accredited franchise consultants
- Internet companies

Many accredited franchise consultants have a number of the above skills in house, choosing the right consultant to guide throughout the whole process can be the best investment you can possibly make.

### Case Study

A large international engineering group, the target company of a Local Enterprise company, decides to investigate franchising as a means of expanding the sales of mainly consumable items manufactured by one of the smaller divisions. Sales were moribund and the right sales people seemed impossible to find.

A British Accreditation Bureau (B.A.B.) accredited consultant was chosen and the Terms of Reference submitted, after detailed consultation exactly reflected the groups requirements.

A Diagnostic report was produced including market research, which formed a complete study of exactly what would be involved in forming and launching a franchise. A recommendation was made in the report that a franchise launch had every chance of success.

The consultant was commissioned to proceed with implementing the project with an existing company executive involved at every stage. (This executive now heads the franchise strategy).

The consultant also put a franchise award programme in place and assisted with the first pilot award. Using a carefully chosen consultant and involving an existent executive, the company was able to economically set up and launch a franchise over a period of nine months. Once the 'Pilot' franchise has run for about six months the continuous award programme detailed in the business plan will be implemented.

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## How to choose a Franchise Consultant.

- Has the consultancy to which the consultant(s) is attached a sufficiently broad range of skills to suit your needs?
- Are you happy with the particular consultant(s) assigned to your project?
- Will that consultant(s) work well with all members of staff with whom he may have contact?
- Has the consultancy and the assigned consultant(s) had proven success in a similar project?
- Are the 'Terms of Reference' submitted for the completion of the project as agreed in every detail?
- Have they a written Code of Ethics included in their proposals?
- These are the minimum questions you should ask yourself when selecting a consultant and consultancy. Ask your friends and business acquaintances for recommendations and refer to accreditation bodies such as the British Franchise Association and the British Accreditation Bureau.

**Ted Dewar-Healing** CInstSIMM AssocIPD

Contact Ted on: T. 0845 6582004 F. 0845 130 4205 E. tdh@dhaconsultants.com

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