

More and more businesses are looking to franchising as a means of expansion.

The reasons are simple:

- Savings on fit out costs, labour costs and labour on costs such as payroll tax, superannuation and worker's compensation
- Franchisees usually have greater commitment and accountability than employees as they share the risks as owners of their respective franchises.

However, not every business is suitable to be operated as a franchise.



WHAT THEN, ARE THE PRELIMINARY QUESTIONS THAT ALL PROSPECTIVE FRANCHISORS SHOULD ASK?

A. What is my business model?

- **Manufacturer-Retailer:** where franchisee retailer sells the franchisor's products to the public
- **Manufacturer-Wholesaler:** where the franchisee manufactures the franchisor's products and distributes them
- **Wholesaler-Retailer:** where franchisees purchase products from the wholesaler franchisor

- **Retailer to Retailer:** where the franchisor has a developed business system, markets the product or service under a common name through a network of franchisees

B. As the business format franchising model (Retailer to Retailer) has by far been the most prevalent model, let's have a look at what the fundamentals of this model are:

- A proven concept, product or service with ongoing potential delivered to customers via a proven and successful business format;
- Systems and procedures which can be taught and replicated and which can deliver profitability for both franchisor and franchisee;
- A distinctive brand and image, featuring a trade mark;
- A clear plan for the development of the network, with sound processes for Franchisee recruitment, screening and selection;
- Appropriate personnel to provide the Franchisees with the requisite training, support, advice and assistance and to audit and enforce the system, image, standards, procedures and controls;
- Effective communication systems;
- A relationship structure, negotiated and conducted in good faith; and
- Strong, competent and ethical management.

Once we have established that the fundamentals exist, we need to always keep in mind:

THE GOLDEN RULES OF FRANCHISING

FIRST RULE:

The business model must ensure that franchisees will make an adequate return on their investment. Unsuccessful franchisees will fail to pay ongoing royalties and may take legal action against the franchisor to recover their losses. Inadequate returns will make it difficult to attract quality franchisees.

SECOND RULE:

The network must generate sufficient profit for the Franchisor to make and system worthwhile. The franchisor's revenue is dependent on continuing royalties which is linked to the Franchisee's gross sales.

FIND OUT HOW FRANCHISING CAN WORK FOR YOUR BUSINESS.

CONTACT US FOR A CONSULTATION TODAY.