

Investing in the Right Franchise

How to AVOID and DETECT Franchise Scams



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What is

Franchising?

Franchising is a method of distributing products or services involving a franchisor, who establishes the brand's trademark or trade name and a business system, and a franchisee, who pays a royalty and often an initial fee for the right to do business under the franchisor's name and system.



Franchisor

The FRANCHISOR is the owner of the brand and operating system

Franchisee

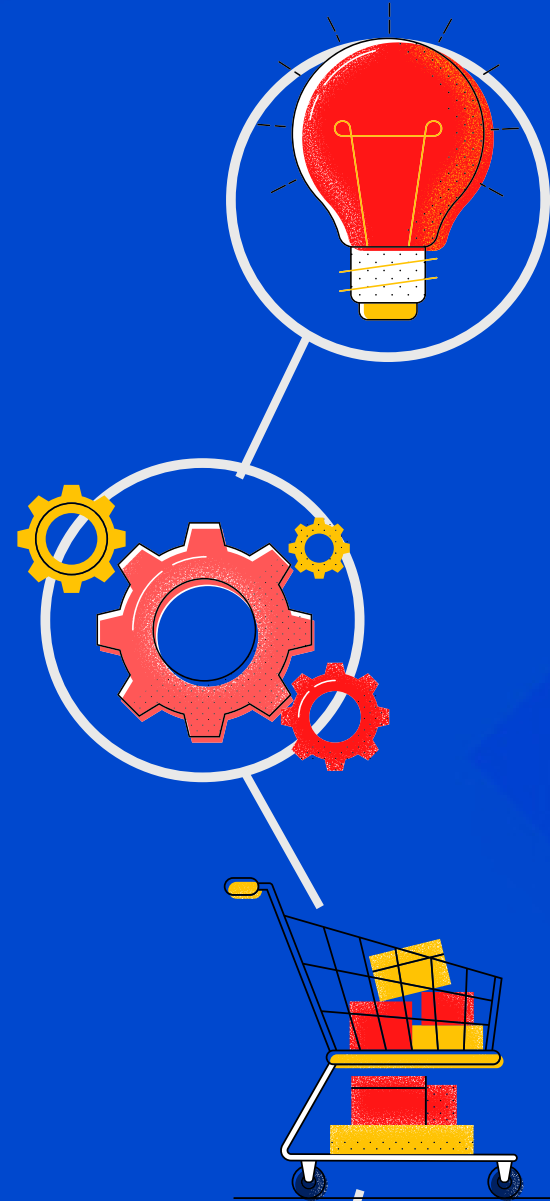
The FRANCHISEE is the “active” investor/operator, and is the one who provides capital, manpower, and time in managing the unit.



Advantages of Franchising



Advantages of Franchising



High Success Rate

Compared to establishing a new business, a franchise business has a higher success rate. It comes with reduced calculated risk because it is a business model based on proven ideas and implementation.

Lower risks

With the experience of the franchisor, the franchisee will have lower risks.

Recognized brand and trademark

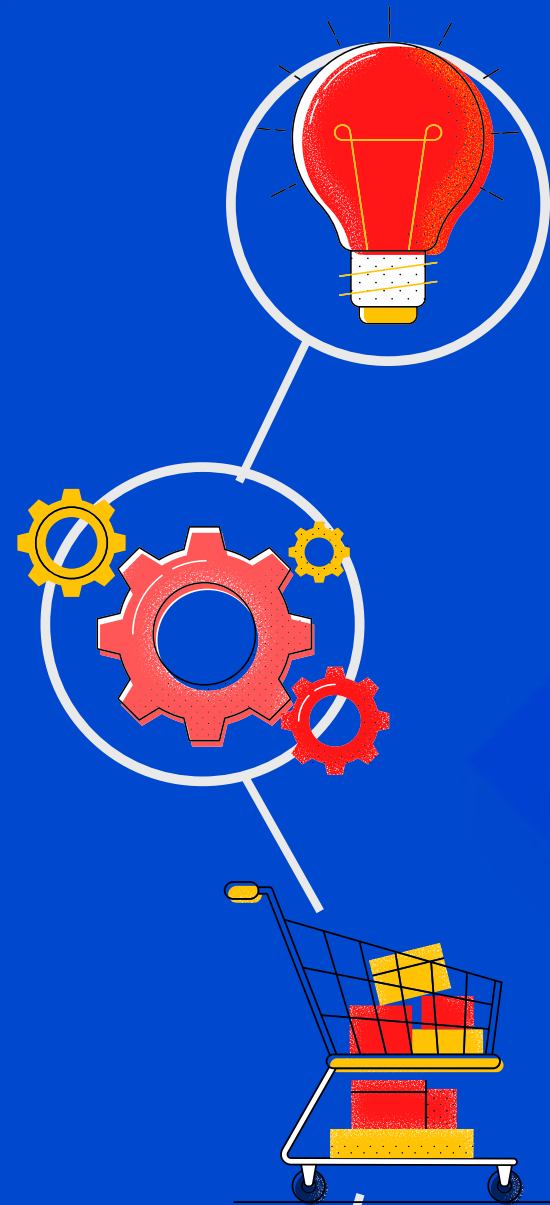
The use of a known or popular brand name is an advantage to franchisees as consumers are already familiar with the quality of the product or service that is linked to that brand as compared to creating a brand name for a new business.

Pre-Opening Support

This includes assistance on site selection, design, construction, finance, training, and a marketing program.



Advantages of Franchising



Ongoing Support

Throughout the franchise term, the franchisor will be providing assistance through regular visits, continuous training, system-wide marketing and advertising, and product research and development.

Buying Power

Franchisors procure materials and supplies for all the stores resulting in discounts (from bulk purchases) which can then be passed on to the franchisees.

Operational Assistance

Franchisors discover and perfect operating and management efficiencies that they pass on to their franchisees. These are designed either to help a franchisee overcome his lack of experience in running a business or polish an acquired business sense.



Advantages of Franchising



Quality Control

Quality is of the utmost importance. Through the franchisor's regular visits and ongoing research and development, the product and service standards will be sustained.

Long-Term Stability

Franchisees will receive ongoing advice/consultations with the franchisors to ensure a fruitful working experience.

Business Synergy

With better information about the market, strategies for better business operations are more accurate as franchisees and franchisors share best practices.

Profit potential

Through the franchisor's experience and control systems, profit potential can be predicted.

Challenges in Franchising

Control

The franchisee is required to consistently follow the system through the operations manual provided by the franchisor and is bound by the franchise agreement.

On-going costs

The franchisees pay a certain percentage of their franchises' revenues to the franchisor each month, usually royalty and advertising fees aside from the initial franchise fee.

TERRITORIAL RESTRICTIONS

Franchisees may only operate in the location assigned by the Franchisor and must adhere to conditions for expansion or relocation according to the franchise agreement.

False expectations

Franchising is not an instant success. Franchisors who fail to give franchisees ample support or franchisees who tend to be lax in complying with the operational procedures and adhering to franchise agreements create dents on the established system, later on creating damage to the business or the brand.

Qualities of a Good Franchise Business



Experience

Successful franchisors have solid industry experience. They should be experts in their business. They are looking for individuals that can leverage their business skills developed from professional and personal experience.

Training

Franchisors will be experts in training new franchisees on how to develop the knowledge and skills necessary to ramp up and run their business model successfully.

Ongoing Support

Franchise support is provided on several levels such as ongoing training, new product development, and new technology. Good franchise companies are always evolving their system to keep ahead of the competition and stay ahead of industry trends.

Franchisor/Franchisee Relationships

Effective franchise systems will develop a collaborative dynamic not only between the franchisor and franchisees but amongst the franchisees to always be improving the business model and efficiencies. Annual conventions, mentoring groups, and advisory councils are a few ways franchisors support their franchisees.



Name Recognition

Some industries need strong brand names to help with their success, others do not. There is a careful balance between having name recognition in your area, but having available territory. Evaluating the track record of the franchise in new territories will be valuable in your research.

Proven Sales and Marketing Systems

Franchises should provide time-tested systems that fit their business model. Good franchisors have effective advertising materials, marketing approaches and know what media are the best option for their brand.

Buying and Purchasing Power

By pooling the resources from all the franchise owners, the franchise system should be able to achieve better pricing on supplies, necessary products, or marketing mediums than you could do as an independent business owner.

Demographics and Site Selection

Franchisors should provide the demographics required to support a healthy business in their franchise. When the location for the business is key to success, expect the franchisor to assist in identifying and evaluating the best locations.

Qualities of a Good Franchisee



Qualities of a Good Franchisee

Leader / Communicator

Successful franchisees are typically successful leaders. A great leader is someone who is influential, with good decision-making and, most importantly, excellent communication skills which are necessary for leading and motivating staff as well as ensuring that the franchise provides top-notch customer service.

Risk-Taker

A great franchisee should be comfortable with taking the chance on a franchise being successful as well as be able to take calculated risks that will help make their business grow.

Willingness to Learn

It's important to understand that you will need to accept training and guidance from the franchisor. Every circumstance - positive or negative - should be viewed as a learning experience that can help you get to the next level and become even more profitable and successful.



Qualities of a Good Franchisee

Adaptability

Being adaptable is key as a franchisee. Possessing the ability to be flexible and adapt to changing circumstances is a must as well as being resilient and able to bounce back from missteps as you establish your new business.

Team Player

Franchise agreements require you to follow a specific set of business practices established by the franchisor and used with success by other franchisees. Uniformity is necessary so that customers know what to expect at any franchise location.

Financial Aptitude

Running a franchise requires financial knowledge, including how to figure out profit and loss, labor and materials costs, and do accounting for the business. Financial stability often needs to be demonstrated before you can purchase a franchise.



Qualities of a Good Franchisee

Patience

A franchisee who can keep expectations realistic will have an advantage over others who may not be patient enough to keep making the effort long enough to see profits and success.

Results Driven

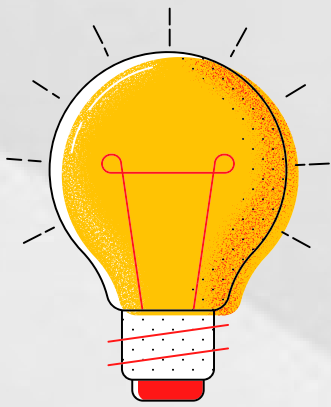
Successful franchisees are driven by setting and obtaining measurable goals to stay focused and on track towards making the franchise a success.

Passionate

Without the passion and drive for success, it is unlikely that you will be successful. A franchisee with a passion for success and for the product or services they are selling will go above and beyond to make sure their business is successful.

Things to Consider before Buying a Franchise

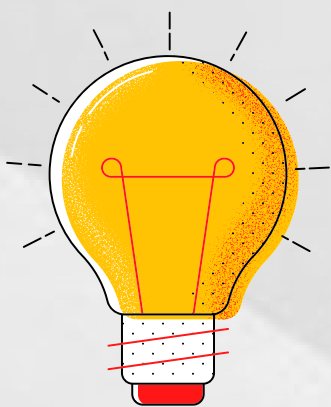




Things to Consider before Buying a Franchise

1. Ask yourself why you want to own a franchise.
2. Give yourself a personality test. A vital sign that a franchise may be right for you is if you are passionate about the product or service it provides.
3. Do your own research.
 - a. Have a complete understanding of the business.
 - b. Check your personal resources and experience in running a business; the hours and personal commitment to run the franchise; and, how much money is to be invested.
 - c. Proven sales record. The benefit of investing in a franchise is to capitalize on a successful enterprise. A good sign is a franchise that can provide you with proven sales success with their existing franchisees.





Things to Consider before Buying a Franchise

- d. Check if it has training and support offered to franchisees. It is advisable to choose a franchise that offers substantial training. Some even provide ongoing support even after your franchise is up and running.
- e. With proper guidance and training, the chances of your franchise being successful right from the start will increase greatly.
- f. Review and evaluate the Franchise Agreement carefully. Consult a lawyer if needed.
- g. Check IPO and other government registrations.

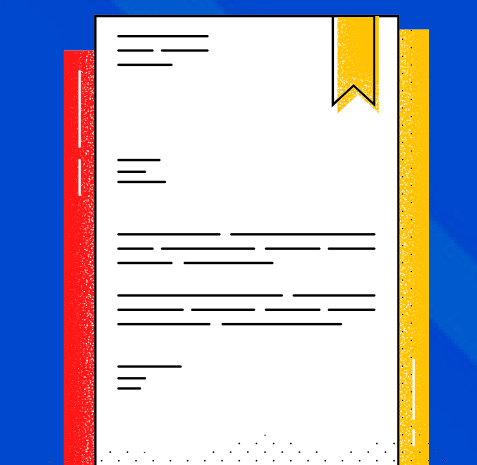
4. Trend - Check if the concept belongs to a growing market. You want to move into a market or industry that is growing, not fading.

5. Location - Can you find locations? Ask about the territory rights. Make sure that you make a good site location.

Understanding the Franchise Agreement

The Franchise Agreement (FA) is the legal document that details the rights and obligations of the franchisor and the franchisee, the term of the franchise agreement, renewal provisions, and transfer and termination.





What is included in the Franchise Agreement?

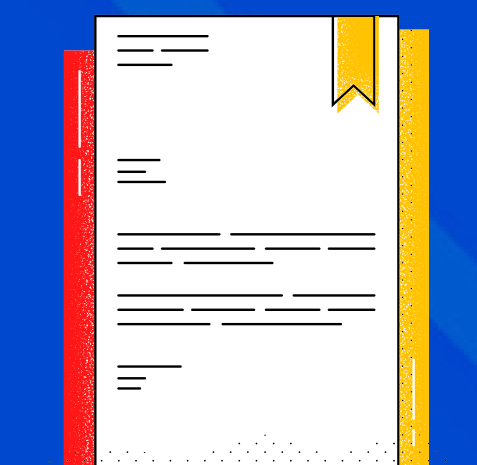
Terms of Agreement

The FA should specify how long the agreement will last. After the appointed period, the franchise is considered null and void.

Franchise Fees

- a. Franchise fees - The initial franchise fee, which usually non-refundable, is paid at the start of a franchise relationship thus giving the franchisee the right to engage in the business using the franchisor's name and business system.
- b. Royalties - Royalties are usually a percentage of the franchisee's sales and are typically paid weekly, biweekly or monthly.
- c. Marketing contribution - System-wide marketing contributions are also based on the percentage of franchisee's sales.





What is included in the Franchise Agreement?

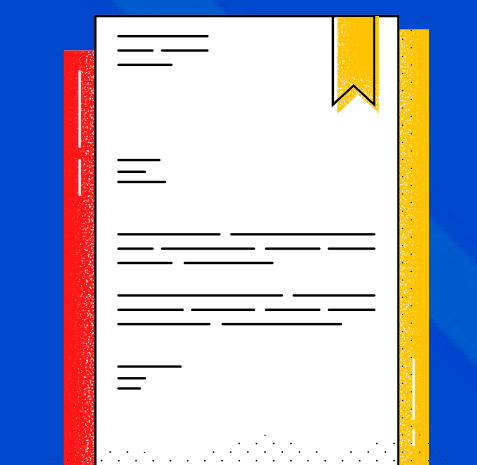
Training and Support

The FA should state the kind of training and support the franchisor will provide.

Renewal

Renewal periods grant the franchisor the chance to review the FA thus enabling him to decide whether to renew the agreement or not. The franchisee's good performance is the most common of all criteria. However, a renewal does not guarantee the retention of the original terms and conditions of the agreement. If applicable, a renewal fee is also charged by the franchisor.





What is included in the Franchise Agreement?

Purchase of Products

Products and supplies used in the franchise system should maintain consistency, hence a detailed list of suppliers accredited by the franchisor is provided in the Operations Manual.

Territory

The Territory determines the geographical boundaries a franchisee may operate, or within which no other unit of the franchisor's businesses may compete.

Termination

This explains the grounds for termination of the contract. In some cases, violations of such conditions may be remedied, but if repeated over time, such may lead to termination of the contract.

Essential Requirements for Franchise Agreement

- Appointment and Franchise Fee
- Advertising
- Royalties, Continuing Service Fee, etc.
- Accounting of Records
- Standards of Quality and Performance
- Operations Assistance
- Franchisee Covenants
- Default and Termination
- Transfer of Ownership
- Absence, Death, or Incapacity of Franchisee
- Franchisee as an Independent Contractor



Signs of a Franchise Scams

- Too good to be true claims of profitability
- Pressure tactics when selling their franchises
- Absence of the list of franchisees
- Absence of the list of outlets

- Vague company profile like the list of officers
- No company address
- Unclear Franchise Agreement
- Lack of transparency

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