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**THE HOTEL AND
TOURISM ASSOCIATION OF BOTSWANA (HATAB)**

AND

**BOTSWANA CONFEDERATION
OF COMMERCE, INDUSTRY AND MANPOWER (BOCCIM)**

**FRANCHISING GUIDELINES FOR POTENTIAL
SMALL BUSINESS ENTREPRENEURS**

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FRANCHISING GUIDELINES FOR POTENTIAL SMALL BUSINESS ENTREPRENEURS

FRANCHISING

A franchise arrangement occurs when the business rights for a particular business, as well as the knowledge, procedures, expertise and goodwill necessary to run it, are sold to an individual or a number of companies, who are called franchisees. The amount of money involved naturally depends on the type of business being undertaken. The franchiser may expect to earn some form of royalty from you.

Franchising is a popular way of starting a small business. examples of such are: MacDonaldds, Wimpey (fast food); Choice Hotels, Travelodge, Best Western, Hyatt, Ramada inns, (hotels); Budget rent-a-car, Thrifty rent-a-car, Alamo-rent-a-car, Avis, Hertz (car hire); DHL, TNT Express (courier services); Uniglobe, Travel Network, TP Travel, Travel Professionals (travel agencies).

Operating a franchise is a relatively safe and easy way of starting out with your own business. A franchise can reduce the risk of failure. Many of the problems encountered in starting a new business have already been overcome, while the business idea has been tested and shown to be profitable.

This may include an accounting system, marketing techniques, restaurant design and development, management consulting and personnel system. Of course, the franchisee has to put in a lot of hard work, and will still be faced with all types of problems which have not been anticipated by the franchiser.

PROTECT YOURSELF

Learn to protect yourself. You should not believe that others have your best interests in mind during your research process. Be very cautious over promises of immediate success. Be prepared to spend time in research. Do not be in a hurry to invest your money.

1. Do your market research properly
2. Investigate the franchiser
3. Talk to other franchisees, and also competitive franchisees in other areas.
4. Make your 'swot' analysis (strengths, weakness, opportunities, threats).
5. Prepare your business plan
6. Prepare your market plan
7. Remember your four Ps:
Product, Place, Price, and Promotion.

ASK QUESTIONS

Sounds easy does it not? Yet many fail to do this.

Why is that? Because many people hate to make a nuisance of themselves. Challenge statements! Do not be trusting.

Remember the honest franchiser needs you just as much as you need him. Make decisions on rational clear analysis not on dreams.

Initially, four aspects of the franchise option need to be investigated: the franchiser, the product, the franchise agreement, and the return on investment.

THE FRANCHISER

- * Consult existing franchisees about the operation. Are they satisfied with the arrangement? Are they making a profit?
- * What is the franchiser's reputation in the business community? Speak to chambers of commerce, banks, small-business agencies and credit agencies.
- * Inspect a certified profit and loss statement for the business.
- * Beware of high-pressure selling and promises of larger profits with minimal effort.
- * Try to find out about the franchiser's career. Have there been a previous involvements with failed franchises or other business? How did the present franchises get started?

THE PRODUCT

- * Has market research indicated a need for the product or service?
- * Can it make a profit? How difficult will it be to achieve the projected volumes and margins, and to keep the expenses at the level anticipated in the plan?
- * Are there equivalent or more competitive services/products on the market?
- * How many other franchises are already operating? How many are projected for the future? Is there a danger of market saturation?
- * Is the market growing, stagnant or shrinking? How large is it at present? Does this leave scope for growth?
- * Who manufactures the product or supplies the material or services? How is quality, pricing continual supply or services guaranteed?

THE FRANCHISE AGREEMENT

- * Have the agreement inspected by your lawyer.
- * The provisions regarding termination, transfer expansion and renewal of the franchise must be very carefully examined. For example, how much control do you have over termination of the franchise? How difficult is it for you to challenge the validity of the franchise agreement in court?
- * How much freedom do you have to do things in your own way? This applies to factors such as pricing, opening hours location, services and product modifications.

- * Examine the provisions regarding marketing and promotion. Are advertising expenses borne by the franchiser or shared among franchisees? Or is this the responsibility of the individual franchisee? How rigidly is advertising controlled by the franchiser?
- * Are the franchiser's duties to the franchisee clear? This applies to training, advertising, quality control, purchasing, distribution, insurance, equipment, and negotiations with suppliers, buyers and authorities.
- * Does the agreement prevent you from starting additional franchise outlets at a later date? Does it prevent you from starting a similar business later on?
- * Are the territorial boundaries specified in the contract? Does the territory offer a comparable profit potential to those of other franchisees?
- * Does the agreement prevent the franchiser from starting additional outlets in the territory at a later date?

THE RETURN ON INVESTMENT

- * How much of an investment will be required for the franchise? Is the 'franchise fee' merely a down payment? Are there hidden costs in the form of payments for equipment, leases, building, services, supplies, advertising, corporate overheads, royalties, renewal fees, or insurance?
- * How soon, after the contract is signed and the franchise fee paid, will the business start showing a profit? How long will it take to break even? How will fixed costs be financed in the interim?
- * How much profit will you actually make per year? How sensitive is this to changes in volume and expenses?
- * Ask an accountant about the accounting practices used. Are profit projections calculated on a realistic basis? What are the cash flow projections?
- * Does the franchiser provide any support services - financial advice, management advice, bridging finance?
- * Are royalties charged? Are they reasonable?

OTHER FACTORS TO CONSIDER

- * Would you buy the product or use the service?
- * What sort of hours will you need to put in? Is it worth you leaving your job? Are the long hours and the extra risk compensated for by high returns.

- * Many franchises leave little scope for creativity and innovation. If this important to you, make sure the franchise gives you room to develop this.
- * What standards are set by the other franchise outlets? Are you confident that they will not damage the operation's reputation.
- * How does the business compare with that of competitors?
- * Examine the (projected) balance sheet of your franchise. What is the nature of the assets and liabilities? Is this a risky business?

QUESTIONS TO ASK A PROSPECTIVE FRANCHISER

1. How many franchises have been contracted in the region over the last two years?
2. How many franchises have closed in the region over the last two years?
3. Explain in what ways the franchiser will assist once you begin your business.
4. Exactly how does the franchiser assist in the supply of business or clients? Ask to examine current price sheets/tariffs from various franchisers.
5. If you intend to take over an existing operation demand to see books of accounts, not just balance sheets, for the last three years.
6. Ask for the names and addresses of franchise owners who have given up, left the system, over the last three years. They may have left by mutual termination, expiration of term, transfer.
7. How will the franchiser ensure that other franchisees maintain service and quality standards?
8. How does the franchiser handle disputes? Is arbitration or mediation used? How have problems been solved?
9. What are the average and median sales achieved by typical franchisers?
10. Who will be your liaison link person in the franchisers offices?
11. What kind of paper work/reports/systems are in use? Ask to see samples. Is it confusing or not?
12. What plans does the franchiser have for the further expansion in your area? Has it identified any additional locations which it wishes to see developed?

13. Are any market studies available on this area of your choice?
14. What is the biggest challenge or problem faced by a franchisee in this particular type of franchise?

Ask for a comprehensive list of franchisees. Do not accept a few given to you by a franchiser. Make your own choice. Do your own selection and viewing so that you get a selection.

Do not fear to speak with departed franchisees. They are more open about problems than current operators.

QUESTIONS TO ASK AN EXISTING FRANCHISEE

1. Are you satisfied with your investment?
2. Has the franchiser supported you?
3. Were you disappointed with any area of your entry into this business?
4. Did you have sufficient skills to enter into this type of business?
5. Did you acquire skills after entry?
6. Did you have any problems with acquiring products or clients?
7. Are you making the kind of money which you expected to make?
8. How did you finance the business start up?
9. How are you financing the operation?
10. How is your current cash flow?
11. How much do you spend on advertising, marketing?
12. What is your profit?
13. What aspects do you dislike about the business?
14. What do you like about the operation?
15. What are the negative aspects for the operation?
16. If you had the chance and know what you know would you invest into this business again?