



## Key Information about Franchising

This brief document produced by the British Franchise Association aims to provide an initial outline to franchising for any individual or individuals wanting to explore a career, running their own business.

The term 'franchising' has been used to describe many different forms of business relationships, including licensing, distributor and agency arrangements. The more popular use of the term has arisen from the development of what is called business format franchising.

Business format franchising is the granting of a license by one person (the franchisor) to another (the franchisee), which entitles the franchisee to trade under the trade mark/trade name of the franchisor and to make use of an entire package, comprising all the elements necessary to establish a previously untrained person in the business and to run it with continual assistance on a predetermined basis.

### The principle is simple

Some companies choose to grow, not by developing in the conventional way, but by granting a license to others to sell their product or service. There are clear advantages to this:

You don't have to come up with a new idea - someone else has had it and tested it, too! Larger, well-established franchise operations will often have national advertising campaigns and a solid trading name

### Good franchisors will offer comprehensive training programmes in sales and indeed all business skills.

Good franchisors can also help secure funding for your investment as well as e.g. discounted bulk-buy supplies for outlets when you are in operation

If aware that you are running a franchise, customers will also understand that you will be offering the best possible value for money and service - although you run your 'own show', you are part of a much larger organisation.

### Who is in control?

Each business outlet is owned and operated by the franchisee. However, the franchisor retains control over the way in which products and services are marketed and sold, and controls the quality and standards of the business.

### What are the cost implications?

The franchisor will receive an initial fee from the franchisee, payable at the outset, together with on-going management service fees - usually based on a percentage of annual turnover or mark-ups on supplies. In return, the franchisor has an obligation to support the franchise network, notably with training, product development, advertising, promotional activities and with a specialist range of management services.



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Franchising is essentially the permission given by one person, the franchisor, to another person, the franchisee, to use the franchisor's trade name, trade marks and business system, in return for an initial payment and further regular payments.

In a UK franchise industry currently worth £10.3 billion and comprising 759 franchised units (NatWest UK British Franchise Association Annual Survey of Franchising 2006), how do you choose the franchise for you?

Your first port of call should be to consult the British Franchise Association (BFA) as the only independent accreditation body for franchising within the UK. The BFA Franchisee Guide is invaluable and provides a wealth of step-by-step information for potential franchisees - more than 30% of franchisees buy this unique, independent guide before making their decision.

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- Prospective franchisees setting about conducting their due diligence into the business opportunities available are strongly advised to choose a BFA member franchisor as its members have chosen to be accredited by this self-regulatory Association, and to abide by its regulations. This ensures accredited members abide by this terms.
    - Ethical and operating with a comprehensive franchise agreement.
    - Viable and Franchisable with a proven product or service as proven by substantial majority of franchisees who are successful over an extended period.
    - Disclosed. Members are obliged to disclose their financial records and the records of their Directors; financial projections; and the identity of their franchisees. They are periodically re-accredited by the BFA.
  - The BFA also recommend you attend an accredited Franchise Exhibition - the best way to meet and initially assess many franchisors under one roof.
  - What is the viability of your potential franchise brand product/service? Can the company demonstrate a financial record which shows a sound business with evidence of at least one successful franchised outlet and no significant record of failures?
  - Cross examine yourself. How much time and financial commitment can you give? What are your expectations? Have you spoken to other franchises to hear their experiences?
  - In relation to any other small business, franchising has proved to be successful, with 96% of units still operating profitable businesses 5 years down the line. Only 66% of small firms survive the first 3 years (Small Business Service 2005). There is [some] evidence to suggest that franchises are less likely to fail than other types of small business organisations (Castrogiovanni Justis and Julian 1993). But remember that franchising is not an easy option and will require investment of a lot of hard work and money, in the early stages.

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At the end of the day, you as the franchisee must be prepared to be realistic. Many franchisees have risked their home, savings and family relationships by investing in business, consumed by dreams of becoming successful business owners. The secret is to err on the side of caution and do your homework.



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### How to choose a franchise

When deciding whether a franchise is right for you, you must - first and foremost - look closely at yourself. At your commitment, your expectations and your qualities. Then and only then can you make realistic judgments about a franchise that will suit you.

### Your commitment

Franchising is no easy option. You will invest a lot of hard work, as well as your money, over long periods of time, often in unsocial hours. You will take your work home with you, and you may take your family to work with you. Either way the stresses and strains will be as much your family's as your own. The first year will be the hardest, or the first two years, or the first three - it all depends as much on you as the franchise.

### Your expectations

Your expectations by way of earnings are as important to think about as the amount you will have to invest. If you need £20,000 a year to live on, do not choose a franchise which can only produce £15,000 a year. Although the failure rate in franchising is low, less than 1 in 10, failures are still for the same old reasons that most new businesses fail.

### You take too much money out of the business too quickly

You must take as much responsibility for checking the financial projections as the Franchisor. Be sure you know the basis for those projections, be sure they apply sensibly to the particular territory you are considering. Be sure you check them against the actual experience of existing franchisees. Do not base your investment on what you hope will happen.

Base it on a realistic assessment, a conservative estimate, of what has and could happen. If the difference between profit and loss is only 1% point on interest rates then you are at risk, so leave your rose-tinted crystal ball at home.

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In conclusion it is important that you consider and franchise opportunity very carefully. At Skin Kind we strive to provide concise and accurate information about our franchise product and the levels of support and training available.

For more details contact Skin Kind on 01535 655677 or visit [skinkind.co.uk](http://skinkind.co.uk). Skin Kind is part of the Brookworth Group.

 Skin Kind  
The Old Police Station  
Bolton Road  
Silsden  
Keighley  
BD20 0JY.