



## Is Your Business Ready to Franchise?

*Often people with a successful business are considering a range of options for expanding their business. In evaluating the options, franchising is becoming an increasingly popular option for well-established businesses operating in a local market but wishing to expand regionally or nationally.*

### What is franchising?

Put simply, the owner of a business (or franchisor) retains all of the intellectual property and know-how in their business system and authorises independent companies (known as franchisees) to operate the business system in a particular territory. There are four basic features:

- ownership by the franchisor of a name and distinctive business system;
- the grant of a licence to franchisees permitting the use of such name and business system;
- the inclusion in the licence (franchise) agreement of controls relating to the operation of the business and the manner in which the franchisee can use the intellectual property; and
- payment by the franchisee of a fee or other consideration for the rights to operate the business.

### Am I ready?

Franchising provides an opportunity for the owner of a business to:

- expand the brand and customer base without having to provide all of the capital and personnel for that expansion; and
- move away from the day to day operational running of the business and move more into a system development and mentoring role.

In deciding whether to franchise your business you need to consider the following:

- is the business to be franchised well established, profitable and well capitalised? Franchisees will expect the business system to be robust and profitable and will ask questions of the prospective franchisor as to the financial strength of the business;
- does the senior management of the franchisor have sufficient business experience and strengths? There is a significant difference between running a business and being a franchisor that runs a franchise system. You need to consider whether you have the necessary skills within your business to transition between the two roles;
- does your business have a unique feature or way of operating that differentiates the business from the other competitors? Franchisees will be attracted to businesses that have a strong brand in the market and a good reputation for delivering results;

- is your method of operating easily taught to others and able to be captured in a business manual? The power of franchising is the ability to replicate the same business system and provide the same service to customers. During the start-up phase for franchising, a lot of time will be spent documenting the system method and the way of doing business;
- have you protected your brand and registered a trademark? This final point is critical for entering franchising as you will need to licence the use of the trademark to your prospective franchisees.

### **Next steps**

If after answering the above questions you wish to proceed with franchising, then your next steps will be to decide upon:

- documenting the business system into a manual that can be shared with franchisees as the rules for running the franchise business (usually with the help of a franchise consultant);
- the proposed structure of your franchise (such as territories, fees, marketing and performance requirements); and
- preparing the legal agreements between the franchisor and franchisees to govern the franchise relationship.

Franchising is a great option for those business owners wishing to expand their business and move away from the day to day operations to system control and mentoring. There are some key areas that need to be considered before entering into franchising and it is important to establish the franchise system correctly from the start before engaging with prospective franchisees.

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