

FRANCHISE

FAQ's



FREQUENTLY ASKED QUESTIONS WHEN CONSIDERING PURCHASING AN ON TAP FRANCHISE

WHAT IS FRANCHISING?

The word “franchise” in French means “privilege” or “freedom” – in essence, giving an individual the “right” to something – in this case, the right to operate a business or licence under specific conditions.

Franchising is undoubtedly the most “public” of business formats. You recognise a franchise because it carries a strong brand association, has a distribution mechanism that reaches far and wide, and provides a uniform product, service and image to the public. The word franchising, however, can apply to many “rights” – from the franchising rights of cartoon characters like mickey mouse, or movies like the matrix, to the franchise “rights” of soccer clubs like “Ajax”.

Business format franchising is defined as a distribution network operating under a shared trademark or trade name, with franchisees paying the franchisor for the right to do business under that name for a specified period of time. In exchange, the franchisee is able to use the franchisor’s business system or format, including the name, goodwill, product and services, operating manuals and standards, marketing procedures, systems and support facilities. The franchisor, in turn, is obliged to give initial and ongoing services and support.

Product and trade name franchising is characterised as a sales relationship between a supplier and a dealer. Product and trade name franchises can be found most commonly in car dealerships, petrol service stations and cold drink bottlers. The dealer is granted the right to sell its products in exchange for fees and royalties, and has an obligation to sell only the franchisor’s products.




GET THE FACTS ON FRANCHISING

On a more basic level, franchising is really just an extremely good distribution method. The “franchisor” or person, who starts a company or develops a concept, uses others (franchisees) to duplicate his concept and distribute it on a large scale. This inter-dependency forms the basis to the business format and its success lies in the effective implementation of certain basic but clearly defined business principles. The juxtaposed relationship between franchisor and franchisee needs to be fully understood and accepted for the overall business to succeed. The responsibilities of each side include:

THE FRANCHISOR

- Is the originator of the concept;
- Provides an established and tested business system;
- Has an established name, brand and trademark;
- Sells “clones” of his concept in order to grow the business and build the brand;
- Supplies the know-how, training and support services;
- Expands his network rapidly and cost-effectively; and
- Benefits from pooled operational efficiencies.

THE FRANCHISEE

- Buys a ready-made business package;
 - Buys the rights to operate under a well-established brand name;
 - Invests capital, time and effort to replicate a proven concept;
 - Must follow the franchisor's standards, methods, procedures, techniques and marketing plans;
 - Must pay a fee to the franchisor for the rights to use the trademark and business systems for an agreed period of time;
 - Benefits from skills transfer, training and business support; and
 - Invests in a viable business that will prove to be a good investment.
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WHERE DO I START?

Changing a career path is a momentous step and deciding to invest in a franchise business needs to be taken seriously. Jumping into self-employment with the first franchise that takes your fancy is not a wise move. Spending time investigating the franchise sector, what's on offer, and how the various companies are structured, is crucial to making the right decision.

Review the sectors

Unless you know exactly what type of business you want to get involved in, you need to become familiar with the many sectors that make up the franchise industry in South Africa. Don't dismiss any sector before investigating each one fully – you might be surprised at the hidden opportunities.

Compare franchises within a sector

Study the offerings of different companies within a sector. Make notes on their similarities and their differences and ask questions on why they may differ in various aspects – whether it be financial or operational. You should pick up discrepancies or shortfalls that may alert you to any inadequacies.

Check out their FASA (Franchise Association of South Africa) status

One of the first questions you need to ask is: Are you a member of the Franchise Association of South Africa? And if not, why not? Remember that the process required to become a member of FASA is quite onerous, and franchise companies that make the effort to comply with FASA's stringent code of ethics are more transparent operators with sound business principles.

Check out their credentials

Don't take anything at face value. Investigate the company's history, find out who owns it and scrutinise their Disclosure Document. Question anything that strikes you as being out of the ordinary and ask for referrals from their business associates and suppliers.

Understand what makes up a franchise package

Knowing what you would be in for is important at the outset, and familiarising yourself with what makes up a turn-key operation will give you a headstart when you start evaluating each opportunity.

Understand what makes up the up-front fee, the set-up costs, the management fees and look for any unforeseen expenses.



Crunching the numbers

Even before embarking on your own Business Plan, get an accountant you trust to look at the projected income figures of the franchises you are interested in to make sure they are realistic. Look for all the other costs that will affect the bottom line such as advertising contributions, training fees and the unencumbered cash that is required to tide you over until you become profitable.

Review financing options


Even if you are in a position to self-fund your business venture, consult with all the banks that have franchise divisions and get their insight into which franchises they have audited, financed and supported. Then ask their opinion on the best way to raise the funds needed to finance your business. Their close involvement with the franchise sector will be invaluable in guiding you to making the right choices.

Understand the legalities

The core of franchising lies in the rights and obligations of both parties and understanding the legalities of what you are getting involved with is perhaps the most crucial element to choosing the franchise route. Once you've made your choice, you need to consult with a lawyer who has experience in franchising to ensure that the franchise contract is fair to both parties.

Take a long-term view

This goes for yourself and the franchise you are planning to invest in. When assessing a franchise, look at their history and their long-term prognosis and match that with your own plans of investing in a solid franchise that will see you in business for a few years to come.



WHAT ARE THE PROS AND CONS OF FRANCHISING?

THE PROS

- Buying into a proven turn-key operation: The advantage of buying a turn-key business with an established brand and tried and tested operational procedures is probably the most important advantage to investing in a franchise.
- Reduction of risk: Whilst it is not an absolute given, the very fact that only 20% of franchises fail compared to the standard norm of 80% of independent businesses, it is safe to say that buying into a franchise system is less risky as you are buying into an established concept with proven operating standards.
- Start-up assistant: From the moment you sign on the dotted line, the franchisor will take you under his wing and provide all the necessary set-up support - from site selection, to fitting and stocking up the store, as well as training and marketing support.
- Ongoing support: Ongoing support in all aspects of operations will be given based on group benchmarking and sound business principles. This is usually linked to operations, quality control and marketing, and appropriate feedback is given to improve all-round performance in accordance with group norms.
- Group benefits: The benefit of belonging to a family of franchisees is extensive – from getting preferential financing through the strength of the brand to benefiting from bulk buying; from enjoying the fruits of new product innovation to reaping the results of pooled marketing resources.
- Being part of an established brand: As an independent business, you would never be able to benefit from the knock-on effect of being aligned to a well-known brand. The benefits of joint advertising maximises brand awareness and increases the profile of each and every franchisee in the group.

THE CONS

- The cost of the franchise: The cost of buying into a franchise is relatively high compared to setting up an independent business, as there are no shortcuts – you need to follow the franchisor's blueprint, and that means adhering to certain minimum standards of furnishings, fittings and equipment.
 - Ongoing royalty or management fees: For the right to use the intellectual property, and in order to benefit from the ongoing operational and marketing support, you will need to factor in a percentage of your turnover being paid over to the franchisor on a monthly basis.
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- Rigid operating procedures: In order to maintain conformity of brand, and the replication of the proven formula, you will need to run the business according to the rules of the Operations Manual which will become your guide on how to operate the business.
 - Loss of freedom: Since the franchisor's standards have to be followed stringently with no room for individual initiative, the loss of control and freedom to do things your way could be seen as a disadvantage.
 - Sale restrictions: Where an independent operator is free to sell his business whenever he wants and to whomever he chooses, the sale of a franchisee's business is always subject to the approval by the franchisor of the suitability of the purchaser of your business.
 - Bad franchise operator: Although it doesn't happen very often, there is the risk that the franchisor, through bad judgement, greed or misinterpretation of the market, mismanages the franchise. This could directly impact the other franchisees within the group, who may subsequently be left high and dry.

AM I SUITED TO FRANCHISING?

Franchising is not for everyone, or for the faint-hearted, and there are the negatives – from whether you are suited to franchising, to the controls that the franchisor imposes on your business. Although most franchisees have an element of entrepreneurship inherent in them, most franchisees are former employees from corporate backgrounds, or are the victims of mergers or downsizing, or are on the verge of retirement.

On a personal level, ask yourself the following questions:

- Are you generally a healthy person?
- Are you a confident, outgoing type of person that is not afraid of tackling challenges and problems head-on?
- Are you a people-orientated person, able to interact with people on all levels?
- Are you the type of person that can handle stressful situations, are comfortable with taking risks and are prepared for a total change in your lifestyle?
- Are you in a position to support yourself through the initial stages of setting up a business?
- Do you have sufficient qualifications or experience to handle things like managing finances, achieving sales and undertaking marketing?
- Are you customer service orientated?
- Are you the type of person who takes direction willingly or are you known as a “buck-the-system” type of person?
- Do you like and enjoy people in general?
- Can you lead and manage people?
- Do you have the support of your family?
- What do you like to do?
- What are your interests and what type of occupation would be most compatible with those interests?
- Do you think you will enjoy operating your business of choice?

According to Eric Parker and Kurt Illetschko, authors of the book before “Franchising in South Africa: The Real Story”, investing in a franchise is a long-term commitment that, once made, is extremely difficult (and expensive) to reverse. Franchise experts like to compare entering into a franchise arrangement with a marriage. The honeymoon is the easy part but it does not last very long. Once the novelty has worn off, making the best of the relationship can be a grind. But many endure and, decades later, would not want to have it any other way. These two franchise experts suggest you ask yourself the following questions...

Am I cut out for entrepreneurship?

To be successful in a business of your own requires an entrepreneurial spirit.

Although joining a franchise eases you into your new role, it does not do away with this requirement altogether. A carefully chosen franchise offers you a blueprint to business success but there are no guarantees. A franchisor that offers a franchise complete with a success guarantee is a fraud. A prospective franchisee who relies on such a guarantee is simply foolishly falling into a trap.

Will I be happy as a franchisee?

In a franchise, you own the infrastructure of the business but you cannot do as you please. To protect the brand, the franchisor is obliged to insist that you operate in accordance with the network's rules. Some people find this too restrictive.

Do I have the necessary passion?

People often say that their sole reason for wanting to start a business is to make lots of money. They pretend not to care about the sector but, in reality, this does not work too well. Starting a business is hard work, and it takes some time before you see any rewards. Unless you enjoy what you do, the business will soon become a burden and success is likely to elude you.

Is a franchise available in this sector?

It has been said that almost any business can be franchised. While this is probably true, it is only of academic interest to you. What you need to find is a franchisor who is well established in the field of your choice and able to deliver on the promise of franchising. Otherwise, why bother paying franchise fees.

Credits: Fasa Website: www.fasa.co.za – Guidelines
FNB's Franchising in South Africa: The Real Story by Eric Parker & Kurt Illtetschko.





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