Starting a franchise business

By MONIQUE VANEK

SOUTH Africa is behind the rest of the world when it comes to franchising. Only 12% of sales go through franchises unlike in Australia where 30% of sales are taken by franchises and the United States where they are responsible for 56% of sales. These figures suggest there are opportunities to be made in franchising. However, starting up a franchise is no easy task.

Before purchasing a franchise one has to evaluate yourself, the franchisor, the industry in which the franchise operates, the amount of capital you will need to invest in the venture and prepare for the buying process.

Evaluating yourself

Franchising is not for everyone. To improve the chances of having a successful franchise you should first take the time to evaluate yourself to determine your personal job description.

Evaluating yourself can tell you whether you should go into franchising and, if so, which industry you should enter.

“You should realise that the strength in franchising is that you are in business for yourself not by yourself,” says Eric Parker, a partner at Franchising Plus.

“If you’re the kind of person who loves to experiment and do things your way like Richard Branson, franchising may not be for you,” he notes.

Evaluating the franchisor

Before selecting a business to buy you should consider that certain franchisors expect you to follow a certain style and culture. For example, if you plan to buy a franchise with Jawitz Properties, says Jawitz, you need to have a “passion for property” as well as for people and business in general.

“You also need to be able to follow the Jawitz way and live and work by the Jawitz values in terms of integrity, customer focus and service,” adds Jawitz.

Evaluating the industry

Franchises operate in different industries, such as property, retail and financing, therefore you have to evaluate the franchisor and the industry in which it operates.

In South Africa there are over 400 franchisors or business opportunities, says Parker, but the majority of these are not viable.

According to Parker, one should “check, check and check again before buying a franchise.” Asking the following questions could help:

• Is the market for this product or service expanding, stable, rapidly growing, slowing, static, long term, saturated or declining? Speak to analysts. Examine which sectors on the JSE Securities Exchange are doing well and what trade papers are predicting. Evaluate your interest in participating in the industry. The number of advertisements you see could help:

THE BUYING PROCESS

Step 1. Submit an application, or “qualification sheet”. This allows the franchisors to understand your interests better before they advance much further.

Step 2. Review disclosure documents. The government asks each franchisor to prepare these documents (usually more than 50 pages) so that you can get a better understanding of the offering.

Step 3. Develop questions for the franchisor. Ask all the questions the review documents fail to answer to ensure you reach the right decision.

Step 4. Call or visit existing franchisees. This will ensure you get a good idea about the viability of the industry and the franchisor.

Step 5. Meet the franchisor. This will give you a sense of the type of person and management you are dealing with.

Step 6. Choose a potential site. The organisation you are joining should help you identify the best location for your business.

Step 7. Execute the franchise agreement. A seven-day cooling off period is given, by law, to potential franchisees. Use this time to peruse all the documents.

Step 8. Attend training that the franchisor offers for you and the staff you hire.

Step 9. Grand opening this is now the time to open your store.
for the product or service can give you an indication of the market. Watch international developments, says Parker. “Overseas trends often come to South Africa, so this could give you an indication of what to follow.” You don’t want to get into a declining industry. For example, music downloading is not considered to be a high growth category.

- **Does the product or service have special features that will help it sell?** The product has to have a competitive advantage to make money as it might become impossible to maintain premium prices if the product or service can be easily replicated.

- **Who would your competitors be and would you be able to out-compete them?** If your competitors can offer the same product or service for less, can you add value so that you can charge more? Are your competitors advertising and, if so, can you compete with them on this basis, as it will mean that the product or service you offer will be more expensive? Are there any competitors in the industry in which you wish to operate and if not why not?

- **What would be the best area for your franchise?** Does the area have the same characteristics as the general market? How dependent is the success of your business on lifestyles or levels of income?

- **Is this something you really want to do?** Understand that it must be for the long term and not just to join the “band wagon” of a good market, says Jawitz.

- **Do you have enough available capital?** Not just to acquire a franchise, but to set up the office and infrastructure.

  Talking with others such as franchisees, accountants and attorneys can also help you decide which franchise is right for you.

  “Speak to the companies who are franchising, speak to local agents in their areas, do research on companies on the internet and see what they have to offer,” advises Jawitz.

**Sizing up the benefits**

Look at what the various franchisors offer. Identify one that has a track record in helping others succeed in the particular industry you interested in entering – as you will have to pay them for their expertise and advice.

Also, says Parker, ensure the franchisor offers you the following:

- **A disclosure document.** This is usually a thick document that allows you to become familiar with the details of your future relationship. It tells you who the franchisor is and gives you background on the business.

- **An updated letter from the auditor.** This is to ensure that the business is sound.

- **Income projections.** Ask for a document stating the projected income your franchise is likely to make.

- **Market research.** Ask for a document that has proved the need for the product/service.

- **A specific business plan** that shows you how to market to its customer base, how to price, sell and deliver the product or service. The franchisor will also assist with ongoing training for you and the staff you hire.

  It will help you secure financing and give you guidance on pay schedules and managing your money.

- **Assistance with selecting a site,** provide a demographic survey that confirms that your territory contains enough target customers and help you negotiate a lease.

- **Budgets that work** and cost-control systems so that you can know when to start, how much money you will need and when you can expect your first profits.

- **Assistance with your grand opening.** They will be with you when you open up.

  However don’t just rely on the information given to you by the franchisor. Determine your earnings’ capability if you take on that specific franchise.

  Confirm the potential earnings and the franchisor’s integrity with existing franchisees, says Parker.

Each franchisor will provide you with a list of its network members. You should call them to get their confirmation of projections.

If a franchisor will not give you a list of its franchisees, you should probably head for the door.

**Putting up the money**

After completing all these steps you need to consider how much capital you will need.

Parker says most franchises charge an upfront fee and an ongoing royalty fee.

The upfront fee and the cost of setting up the business can range from R200 000 to R5-m.

About 40% of this will have to come from your own income and the bank should finance the rest, adds Parker.

For a franchise with Jawitz Properties, says Jawitz, you can pay anything between R70 000 and R130 000 depending on whether you are a new entrant to the real estate sector or converting a brand to Jawitz Properties.