

Franchising for the over 50s

A PRIME report and guide

EXECUTIVE SUMMARY



July 2005

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This report explores how well franchising fits the needs of people aged over 50 who want to set up in business. It seeks to raise awareness of the issues involved in starting a business as a franchisee, and to help people avoid some of the pitfalls by learning from the experience of others. So it has a practical rather than academic purpose.

On the face of it franchising fits the needs of the people in their late 40s, 50s and 60s well. They are buying into an existing business, so they should be able to assess the risks and get up and running more quickly than if they started from scratch. When the time comes to wind down or retire, theoretically it should be easier to find a buyer and realise the value that has been built up than with an original one-off business.

This report therefore uses interviews and other research techniques to cast light on the pros and cons of taking up a franchise later in life.

Our primary research consisted of four questionnaires, aimed at four distinct groups.

- Poll 1 was aimed at existing franchisees in our target age range, and yielded replies from 13 people currently running businesses as franchisees.
- Poll 2 sought the views of those known to be actively considering franchising, and produced 32 responses.
- Poll 3 targeted business advisers working for organisations in PRIME's partner network - the sort of adviser who might be required to assist older people considering franchising, and yielded 73 valid responses.
- Poll 4, which was actually done first, was an exploratory poll aimed at active members of the older public who might conceivably be interested in franchising. It received 823 responses.

The sample used for Poll 4 was not intended to be statistically representative of the older general public, but was purposely biased towards those in the over-50 age group more likely to be interested in self-employment and starting a business.

Full results from all four surveys are contained in the appendices to the full report, along with details of the samples and methods used. In-depth interviews with 10 franchisees selected from the respondents to Poll 1 and 2 are presented as case studies in Chapter 4 of the full report.

Scope and limitations of this study

It is important to make clear that this study did not look into the whole off-the-shelf business opportunities market. Instead, by concentrating on business-format franchising, it has resulted in a focus on the top end, in terms of both entry cost and the quality of the propositions on offer.

PRIME believes further research is a priority into other options that have lower entry costs, such as party-plan selling, network marketing and other kinds of direct selling and home-based business - including the more proven online contenders.

However, many of these carry a higher risk level than franchising, and you generally have less information at the time you get involved. PRIME is concerned that the search for a low-cost business will lure older people into the jungle of work-from-home and 'make money while you sleep' schemes. These carry different risks that need to be fully understood and evaluated at the outset.

Franchising is an appropriate solution for some over 50s

The good news is that PRIME found few signs of age discrimination or ageism in franchising. This means that proper business-format franchising is one of the few "solutions sectors" truly open to older people. There may still be issues of access to do with cost and the number of good franchises available. But franchising does deserve to be on the list of options supported by PRIME, because age - at least for those in their 50s, does not seem to be much of a barrier at all.

Franchisors mostly seem well-disposed towards older applicants, and value qualities that often come with age - for example experience, a mature attitude to customer service and an ability to follow established procedures - not to mention possessing an accumulated stock of capital. If anything the emphasis on these factors tends to discriminate in favour of older people.

Franchising can potentially offer a sustainable livelihood for the final ten or twenty years of working life. It is certainly worth considering as a route into business, especially for the over 50s.

However, franchisors also want energy, an often-substantial investment and compliance with their own way of running the business. Indeed, aspiring franchisees often have to get through a demanding and competitive selection process before they can buy the franchise they want, so franchising is not without barriers of its own.

The best franchisors are highly selective. This is a good sign (better than the franchisor just taking anyone's franchise fee, overselling territories and undermining their existing franchisees' profitability), but it does mean the level of drive and sometimes experience required is high. Franchisees generally have to be willing to follow procedures devised by someone else.

Attitudes towards franchising vary

In PRIME's survey of older members of the public, over two-thirds of those thinking of starting a business or going into self-employment said they would consider a franchise. Although the sample used for this poll (Poll 4) was not statistically representative of the older general public, this ratio is unlikely to be greatly affected by the way we selected the participants.

However, the poll also showed that many older people rule themselves out for franchising because they do not want to follow other people's rules any longer, or because they do not want to risk their life savings. Others rule themselves out because they simply feel it's time to wind down.

For people saying they would consider franchising, support from the franchisor and the other members of the franchise network was very clearly the main attraction. Other popular reasons given were that the risk of failure was lower and that it was possible to get a franchised business going more quickly. Also mentioned by a significant proportion of positive respondents was the lack of other suitable jobs for people in their age range.

The most-cited reason given by those saying "No" to franchising was the initial expense, and the ongoing need to share the proceeds of the business with the franchisor. Many respondents wanted to develop their own business ideas, and gave that as their reason for saying "No".

Age and strongly age-related reasons were also mentioned a great deal by negative respondents. But we found the really significant decline in interest in franchising or starting a business did not materialise until people were in their 60s and 70s. As the franchisee case studies testify, many people in their 50s and early 60s are very committed to working and are still keen to start out on their own.

But the entry cost is a barrier to many

So if age itself isn't the barrier what is? The answer from many of our respondents was money, for significant capital investment is often required. Franchises need to be able to find not only their initial investment, but also enough to cover their business and living costs during the start-up period.

The average initial investment made by franchisees was around £42,000 according to the 2005 NatWest/BFA survey. The would-be franchisees that PRIME polled expected on average to spend over £30,000 before they could start trading, which was very close to what the established franchisees told us they had spent. While costs vary between sector and preferential finance packages are sometimes available, the investment sums required can be off-putting.

So people with insufficient personal wealth or problems accessing bank finance are likely to face difficulties getting involved in franchising. Although franchising can and does provide some of the over-50s age group with a livelihood, it is less likely to represent a solution to individuals facing multiple disadvantages. Franchising is not an option for those who cannot raise the necessary capital.

Franchising can make only a small dent in the big problem

There are only around 33,000 franchisees in the UK. This number has remained fairly stable over recent years according to the annual NatWest/BFA survey. If we allow for a 10% or even 15% annual turnover rate, that means there are only about 3,000 or at most 5,000 franchisee slots available each year. And that is for all age groups.

Now put this in its overall labour force context. There are at least 500,000 and possibly as many as 900,000 people in the UK over 50 and below state pension age that want to work but who are currently economically inactive (based on official Labour Force Survey data). To that needs to be added the many people currently in employment who are worried that they might lose their job because of their age.

Both these groups - the already workless and those fearing their present work will disappear, are potential franchisees. But there are huge numbers of them. So though it can help, franchising as a solution to the employment needs of the over 50s is dwarfed by the scale of the problem.

A quick return to work is often urgent and important

There is a major time issue for some older people, brought out in some of the franchisee quotes and case studies. If people over 50 have no other income then they are likely to be consuming their capital. Every month that goes by may be reducing what's left of the redundancy cheque, pension lump sum, legacy, re-mortgage or golden handshake. So the capital potentially available for the business is draining away on living expenses.

It is therefore vital that information and advice to help them find the right business is available promptly, or the opportunity to get a good franchise may slip away.

Support sector needs help itself before it can better promote franchising

Poll 4 showed that relatively few members of the older public would think of approaching enterprise agencies and the Business Link network for advice and guidance on franchising. So helping these organisations promote themselves looks like being a necessary step if they are to play a greater role in helping older people set up in business via the franchising route.

At the moment the biggest problem for enterprise agencies, Business Links and other support organisations in improving their services to potential franchisees is the relatively low volume of enquiries about franchising that they get. On average the business advisers we polled in Poll 3 helped 5.5 franchising clients each per year. Roughly a quarter of these clients were over the age of 50.

As far as business advisers' own training was concerned, we found less than a third of our respondents had received any on franchising or other structured business formats. But almost two-thirds said they wanted such training.

Apart from general business advice and training, enterprise agencies and other support organisations could usefully offer clients up-to-date information about franchising, including leaflets and guides from a variety of sources, event details and contacts. However, they are unlikely to do this without help.

PRIME feels business support organisations should take franchising more on board as an option. But we recognise it is likely to be a minor part of their mission, and few will have the resources to spend much time or money on amassing their own materials. So they will need encouragement and support if the position is to change.

Where is franchising awareness training and pre-start support to come from?

Relevant training and support are required if a greater number of older people are to be made aware of the franchising option, helped through the selection process and on into setting up a sustainable business.

Of course in business-format franchising the franchisors have a major responsibility for providing training once the franchise agreement is signed. But the replies we received from existing franchisees indicate big differences between franchisors in the quality of support and training provided. Most franchisor involvement occurs late in the process, after the franchise agreement is signed.

PRIME thinks there are three requirements for support at the early pre-start stage that can realistically be met, building on what is already being done:

- (1) Specialist franchise awareness training workshops
- (2) General business advice and training to make people enterprise ready
- (3) Provision of up-to-date franchise leaflets, guides and handouts.

Specialists are best placed to deliver franchise awareness workshops

The most cost-effective approach is probably for franchise awareness courses to be delivered by specialist providers, with the general support agencies playing a sign-posting role.

For example, during the period of this study the British Franchise Association (BFA) was running one-day workshops with a number of partners including PRIME, while The Franchise Alliance (TFA) was running a series of three-hour evening "taster" workshops at different locations around the country. Feedback from Poll 2 respondents who had attended workshops of either type showed them to be well-received.

Business advisers in the support agencies need to be regularly reminded that programmes such as these exist, so they can direct clients to them if they are appropriate. There may also be room for more experimentation in how the events are promoted - for example PRIME uncovered some good franchisee candidates attracted by posters in pubs, churches and even on ferries.

Support sector best for general business advice and training

Where the support organisations such as PRIME's partners can make a major contribution without having to invest heavily in building a new capability is in supporting the would-be franchisees' non-specialist needs.

Poll 4 showed that potential franchisees are little different from other people starting a business in what help they say they want. What both groups value most is assistance with preparing their business plans, guidance regarding sources of finance and an opportunity to talk their business ideas through with someone personally.

If we look at the answers from those in our large Poll 4 sample who also said they were considering franchising, the top 10 answers in order of popularity were as follows.

Top 10 support requests from would-be franchisees:
1. Preparation of business plans
2. Guidance regarding sources of finance
3. One-to-one discussion of business ideas
4. Guidance as to suitability for self-employment
5. On-going business mentoring
6. Business training
7. Training in market research
8. IT training
9. Opportunities for group exploration of business ideas
10. Vocational training

The top three answers - help with preparing the business plan, with finance and talking the idea through, were well ahead of the others.

In Poll 2 we asked would-be franchisees the open question "What sort of advice would be most useful to you now?" These respondents were generally much closer to taking up a franchise - or in some cases had already started trading. Their two most-requested areas for help were bookkeeping and accounting, and sales and marketing.

Polls 1 and 2 revealed something else important about the training needs of older franchisees, and possibly older business starters generally. The respondents fell very clearly into two camps - those with lots of relevant small business experience, and those with virtually none. Few fell in the middle.

People do not become more alike with age. In fact differences often widen as more experience accumulates. People are strongly influenced by what they spend their lives doing. This aspect of age is often overlooked, and means a one-size-fits-all approach to training and support may not work.

So it is likely that individuals will either have been doing something that gives them relevant small business experience, or else something entirely different that does not. Therefore by the time they get to their 50s they are likely to have either clocked up a great deal of knowledge useful for running a business, or to know little about it with their experience lying in another sphere.

Summary of recommendations further research and action

The report concludes by suggesting actions that PRIME, its network of partners and other stakeholders could undertake to help more people over 50 successfully use the franchise route to set up sustainable businesses. It also indicates where further research would be useful to enhance our understanding.

Since there are 18 proposals, we list them below, together with the section number in the main report where they are discussed in more detail.

Immediate practical initiatives

1. Providing franchising material to business advisers - section 8.10
2. Providing mentoring as a form of franchisee support - section 8.11
3. Providing basic legal advice to would-be franchisees - section 8.12

Possible campaigns

4. Encouraging resale and recycling of one-off businesses - section 8.13
5. Improving regulation of franchising sector - section 8.15
6. Improving regulation of low-cost business opportunities market - section 8.15

Further research into franchising

7. Outcomes - section 8.2

A proper longitudinal study is needed into the fate of franchisees and their businesses.

8. Cost of franchising - section 8.2

9. Women in franchising - section 8.3

More women are taking up franchises. But why has there been this recent influx?

10. Job franchises and their implications - section 8.5

Job franchises (as opposed to management franchises) are generally the cheapest sort of business-format franchise. It may be worth looking at more case studies to see what the pros and cons are from the point of view of the owner/operator. The prospect of more jobs that were once done by paid employees becoming job franchises raises tax and policy issues for government that need to be understood. See section 2.3 for definitions of the terms used.

11. Representation of UK franchisees - section 8.14

Franchisees in the UK lack their own independent organisations. How does this compare with other countries where franchising is common?

Further research into neglected areas

12. Low-cost business opportunities - section 8.4

There's an urgent need to research the kind of business opportunities that are available to people who can't afford a franchise. More detailed examples are enumerated below:

13. Trading schemes and other non-franchise selling businesses - section 8.6

14. Party-plan selling - section 8.7

15. Network marketing and multi-level marketing (MLM) - section 8.8

Older people hoping for an income in retirement are explicitly targeted in some schemes, making them of particularly worthy of investigation.

16. Online businesses, eBay - section 8.9

17. Online businesses, day trading - section 8.9

18. Online businesses, spread betting - section 8.9



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President: HRH the Prince of Wales. The PRIME Initiative was set up by the Prince of Wales to help older people rejected by the labour market find a way back into work via self-employment or setting up a business. PRIME is now a wholly-owned subsidiary of the charity Age Concern England.

The full franchising report can be obtained free by downloading it from www.primeinitiative.org.uk, or by contacting PRIME on the above number.

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