

Buying a franchise

**A brief guide for
the over 50s
from PRIME**



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Chapter 1

Introduction

1.1 Background and purpose

On the face of it franchising fits the needs of the people in their late 40s, 50s and 60s well. Because you are buying into an existing business, it could be argued that it should be easier to assess the risks and get up and running more quickly than if you start from scratch. And when the time comes to wind down or retire, theoretically it should be easier to find a buyer and realise the value you've built up than with an original one-off business.

But is this always true in reality? Are there any drawbacks? Franchising has a reputation of being expensive, and you've got to find the right franchise in the first place. Maybe the advantages aren't quite so straightforward. And there may still be risks, but perhaps in different places.

This guide is based on a much longer research report "Franchising for the over 50s" published by PRIME in October 2005. That report also contains survey results from polling nearly a thousand people about the pros and cons of franchising. A copy can be obtained by contacting PRIME (details on the previous page), or by downloading it free of charge from www.primeinitiative.org.uk

This guide omits most of the research results and policy recommendations, focusing instead on the practical lessons learned. References to useful sources of information or help have been checked and updated.

PRIME is involved because older workers face considerable discrimination in the conventional labour market, so self-employment or starting a small business can be a way around the barriers of ageism. PRIME is a charity linked to Age Concern. It exists to help such people set up in business for themselves.

This guide is based on work undertaken as part of the Equal Create project, which is part of Equal, a wider European Union initiative that is looking for new ways to combat discrimination and inequality in the labour market. Both are paid for by the European Social Fund, which therefore part-funded this guide.

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Chapter 2

What is franchising?

2.1 The central idea

Franchising has a long history in the UK. The breweries developed the concept with their chains of tied pubs, although the licensed trade now lies outside the mainstream and is governed by its own specific legislation. In the US Coca Cola issued its first franchise in 1901, Kentucky Fried Chicken in 1930 and McDonald's in 1955.

Central to the idea of a franchise is that you are buying a right to something you wouldn't normally be able to do - trade using somebody else's name. Another common theme is that this right extends only to a certain area - the right to operate as Snappy Snaps, Prontaprint or the Post Office in South Croydon for example. And within this area you may or may not have exclusivity - the right to stop others trading under the name.

Since we're talking here about buying certain rights, it's important to be precise. Exactly what you are buying is laid out in the franchise agreement or franchise contract. We'll go into what's typically in the franchise agreement more below, but first we need to head off some possible confusion.

As with many words of great age, "franchise" has acquired a variety of meanings. The licence to manufacture a particular product can be described as a franchise, as when Whitbread acquired the rights to make Heineken lager in the UK. You could also perfectly correctly refer to the right to produce James Bond films as a franchise, or to simply sell perfume or dolls under the name of some celebrity. Complicated multi-level marketing arrangements, some legal and others not, are also sometimes described or passed off as franchises.

So all sorts of licensing, agency and other distribution arrangements are routinely referred to as franchises. But they are not what we are concerned with here.

Instead we will concentrate on what is sometimes called "business-format franchising". It is the type of franchising most often used by new people to set up new businesses, or buy into existing businesses as proprietors in their own right. It's the equivalent in the modern era of becoming the landlord of a tied pub.

2.2 Business-format franchising

Here you buy not just a name, but also a format - an entire system for doing business. You get a blueprint covering all major aspects of running the business, often with step-by-step instructions. The procedures are normally laid down in a very detailed operating manual, which is referred to in the franchise agreement.

Note that once you've signed the agreement your compliance with the operating manual is usually obligatory, not optional. You probably won't have much freedom to introduce your own innovations or source your raw materials wherever you like, and you may have performance targets to hit. So business-format franchising isn't for everybody - you have to be prepared to follow somebody's else's rules.

The advantage of a good business-format franchise is that you get a tried-and-tested recipe for business success.

It also means that the customer gets not just a familiar product or service, but also one that's delivered in an extremely standardised way. When franchisees across the country all operate in the same way the effectiveness of the trading name, trademarks and other branding is multiplied.

Customers come to associate them not just with the core product or service, but a whole variety of other things that might affect their choice. For example, if the core product is servicing a car, the availability of a comfortable waiting area, clean toilets and a clearly itemised bill may matter a great deal to some customers. If they are happy with them they are more likely to be repeat customers at other outlets using the same trading name.

Conversely, if some franchisees can only manage uncomfortable waiting areas, dirty toilets and badly itemised bills it lets the whole network down. The trading name becomes a liability. Consequently franchisees who might be expected to see the operating manual as a restriction on their entrepreneurial freedom often become keen advocates of tight compliance, at least as far as other franchisees are concerned.

2.3 Job franchising versus management franchising

It's helpful to distinguish two varieties of business-format franchising, distinguished partly by cost but mainly by what else apart from labour the franchisee provides. In both varieties you set up your own independent business, and also acquire the right to trade using someone else's trade name and operating manual.

The cheaper form can be describes as "job franchising", where for example you clean carpets, measure up and fit window blinds or teach people to drive. Often with job franchising someone else provides most of your sales leads or customers, and you're unlikely to employ many staff apart from yourself.

Job franchises can be white-collar, with many in the accounting, IT and educational areas. But with all of them the main thing the franchisee is doing is providing the labour.

It's worth asking here what extra benefit you really get from buying into a franchise system, as opposed to for example going out and buying your own carpet cleaning equipment and van. If you're a driving instructor, should you go it alone, or sign up as a BSM or AA franchisee? It partly comes down to how valuable the brand is in getting you customers, and whether the franchisor gives useful training or backup.

The other variety of business-format franchising is known as "management franchising". Here you are running all aspects of the business, not just providing some of the labour, and you take on more of the responsibility of generating your own customers. Nursing agencies, lettings management and hairdressing franchises such as Toni & Guy are of this sort, along with well-know retail and catering franchises such as Prontaprint and Costa coffee shops.

There are even some franchise networks that include both categories. For example many ChipsAway franchisees have job franchises working as owner-operators from their own vans, while others have management franchises, running static car-care centres with a team of employees - and sometimes also a fleet of employee-driven vans.

2.4 Seven key franchising terms

Franchising has its own jargon, and there's a full glossary of terms you are likely to encounter in Appendix 5. However some terms are so important they need to be defined now, as they crop up again and again in this discussion and in what the people we've polled or interviewed have said to us.

Franchisor

The parent company that grants, usually for a fee and other charges, the right to use its trade name, trademarks and system of business operations.

Franchisee

The person or company that pays for the right to do business under the franchisor's name and system. They usually pay an initial franchise fee, then a royalty or service fee and other continuing charges earmarked for specific things such as advertising, rent or equipment.

Franchise fee

A one-off fee paid by the franchisee to the franchisor to buy into the system. The fee also helps pay for initial training and support - so a high fee ought to mean (though sometimes it doesn't) better training and support.

Royalty or service fee

A continuing payment to the franchisor, usually based on a percentage of turnover or profit and paid on a weekly or monthly basis. A fixed monthly service fee is also quite common, particularly for businesses in the service sector.

Franchise agreement or franchise contract

The contract that binds the franchisor and franchisee. See Appendix A1 for a guide to what's typically in it.

Franchising

The method of distributing products or services that involves one or more independent businesses - or franchisees, doing business using a name, trademarks and procedures granted to them by another company - the franchisor.

Franchise system

The full set of franchisor and franchisees for a particular branded range of products or services, for example Prontaprint or Mr Clutch. To the outsider it looks like one big company.

2.5 What does a franchise cost?

This is a classic "How long is a piece of string?" question, as it depends on the franchise. But we can give some indications of the initial investment.

The 2005 NatWest/BFA survey found the average franchise fee to be £15,600, with other costs bringing the total for starting a franchise to £42,200.

The average paid by the franchisees in our own survey was £29,000 up front, with very roughly an extra £5,000 to £10,000 on top for other costs during the immediate start up period, not counting their own subsistence.

Job franchises tend to be the cheapest, as they usually don't involve much in the way of expensive equipment or premises. This is the case with many of the car, carpet and oven cleaning services, or white-collar legal, accounting or educational services done mainly from home or the customer's premises.

But some job franchises require quite expensive specialist vehicles, stock or training, so the cost goes up - for example drain cleaning, automotive tools supply or driving instruction.

The case studies in Chapter 3 give some idea of how costs vary, but it's worth highlighting one example here to clarify the cost structure of a fairly straightforward job franchise. Toni Hamilton (see section 4.2) paid a £12,500 one-off franchise fee, and spent only around another £1,000 getting her home-from-home pet care business going,

Toni was fortunate that her existing car could meet the franchisor's criteria. Most of the extra £1,000 went on public-liability insurance - a recurring business expense she'll have to pay every year. She also pays a monthly service fee of 10% of her turnover to the franchisor Barking Mad.

Management franchises typically cost more than job franchises to get going, because you may need to spend more up front on items such as premises, equipment, opening stock, and even staff recruitment. There's a well-itemised breakdown for running a Cash Converter store at www.cashconverters.co.uk that can serve as a checklist for similar retail businesses.

But for any franchise the really important start-up cost that mustn't be overlooked is the franchisee's own living expenses while the business gets going. There's no salary coming in other than what you can take out of the business. It's very hard to estimate how long it will be before the business starts making you money. "I expected to take money out by month six", says Toni. "It hasn't happened. Be aware that for the first year you'll need some other income support."

2.6 Main cost elements

Before making a decision on a franchise you need to estimate as accurately as possible your total initial investment, as this is the amount you will have to pay or find finance for in some other way.

It's useful to go into what the main cost elements are, so you don't overlook any when investigating a particular franchise for yourself. Here's a fairly generic checklist under three headings.

(1) Payments to franchisor

- Franchise Fee
- Royalty or service fee. This can be based on a fixed percentage of sales, or of profits - which is usually more advantageous to the franchisee in the early days of the business. Sometimes there's an initial royalty holiday, or it's calculated on a sliding scale. Or it can be just be a regular fixed amount
- Advertising fund or levy
- Training fee and/or subsistence while training

(2) Initial setting-up expenses

These vary enormously depending on the nature of the business, but may include:

- Equipment
- Premises, furniture, fittings and signs
- Staff recruitment (if needed)
- Opening stock
- Insurance
- Own launch promotion

(3) Living and running costs for whole start-up period

So far we've covered the relatively easy to quantify stuff, the initial investment.

But to this must also be added:

- Your own living expenses - don't forget that you need to pay yourself an acceptable salary.
- Your businesses bills (staff wages, raw materials, rent, rates, phone, electricity, etc.) throughout the start-up period.

This is sometimes referred to as your working capital requirement.

You need to find this from somewhere outside the business until such time as it breaks even and starts covering these costs.

Meanwhile the money has to come from somewhere - your savings or pension, a loan or perhaps a family member. This is the piece of the financial jigsaw that's frequently missing, and its vital importance is mentioned by many of the franchisees and business advisers we talked to.

This is why before deciding to go ahead you need to do a detailed business plan, including a realistic cash flow forecast. Be honest with yourself, challenging your own assumptions - particular those that underpin when you are expecting an adequate sales income to arrive.

Chapter 3

Case studies of older franchisees

3.1 Intro

In this section 10 people who are operating franchises tell their stories.

All the interviewees had at some point contacted the BFA, TFA or PRIME. So, the case study sample probably has a bias towards people working with better franchisors, since these are more likely to be BFA or TFA members.

3.2 Toni Hamilton Barking Mad franchisee

Finding the right franchise opportunity is often about finding something that appeals. After that, making it pay is the difficult part.

Toni Hamilton is a bubbly 54-year-old who lives in north Devon. Having spent many years fundraising for schools in South Africa, Toni came over to the UK three years ago to take up a new post in a private school, followed by a return to fundraising, but found herself wanting a change in career.

“I’d had 18 years’ experience of fundraising and I was working on my own as a fundraising consultant until the middle of 2004,” explains Toni. “By then, I’d had enough. I needed to get out and I didn’t know what to do.”

Looking for a complete career change, Toni did some research into franchising and attended a PRIME seminar. “I found the seminar really interesting,” she says. “I’d looked up a bit about franchising on the Internet, but the seminar gave a lot more information about what to look for. So I then did extensive research on what was available.”

The franchise Toni chose is called Barking Mad. It’s a service where, rather than having to go into kennels, dogs are looked after by a selected local host family while their owners are away.

“I saw the Barking Mad details and I thought it was fantastic,” says Toni. “I’ve always loved dogs and our own two dogs came over from South Africa with us, so I was really interested.” Toni visited the head office of Barking Mad in Lancaster for an interview with franchisor Lee Southern in July 2004 and felt working with the company would suit her. “I came home and discussed it with my husband and friends and everyone said it sounded like me – Barking Mad – so I felt it was a good cultural fit,” she comments.

Toni had a very clear idea of her budget, based on a legacy she had inherited from her late father. Her initial investment in the franchise was £12,500. “For me,

that is a huge amount of money,” she says. “I had £8,000 from my dad’s estate, so I had to borrow the remaining £4,500.”

She didn't have a many other large expenses, spending around another £1,000 to get the business going. Most of this went on liability insurance - a recurring business expense she'll have to pay every year.

But Toni was fortunate that her existing car could meet the franchisor's criteria - it was large enough to be easily adapted to carrying dogs, and was the correct silver colour to look OK with the required logo and lettering applied to it.

Having signed the franchise contract in August 2004, Toni says the first six months have been very hard work. “During the first week’s training up in Lancaster, there were certainly moments when I was terrified out of my mind,” she admits. “Even though I had run my own consultancy and done such a lot of charity work, this was very different and there have been ups and downs.”

The upside has been that Toni loves the job and feels the franchisor has been very supportive. “This is the first time I have ventured into franchising and the system is all there for you. You just have to learn what to do and do the marketing and then get going,” she says. “I thought the way I was shown the ropes in the first week of training was very good. And I am very glad to be working for myself. I’m a very independent person and I need to work for myself. From day one, I’ve enjoyed the work itself: going to see potential hosts and interviewing potential customers and the dogs, and matching up the dogs with the hosts. I like meeting people and I love dogs, so that has been real fun.”

But Toni has found it quite tough to launch her business. “My territory is the whole of north Devon, which is a very extensive area and I haven’t even managed to market to half my territory yet,” she says. “But it is fortunate that there are other franchisees in the territories next to mine and we have networked extensively, which has been good. I’ve also had very good support from head office. The franchisor came down herself to help launch me and check out how I’m doing, and there is a financial officer and a PA there for us as well. I also find the systems she has devised are very good. There was no need to reinvent the wheel.”

Toni is paying 10% of her turnover each month as a service fee. “The franchisor has created a very disciplined system, but it is straightforward and simple and I don’t object at all to that 10%,” she says. “I think we do get the support we need.”

When she set up her franchise, Toni had a business plan based on financial estimates from the franchisor. She has found it hard to meet her financial targets. “I’ve been on target for a couple of months, but I’ve also been down and the bottom line is that this isn’t just about having fun,” she says. “I have to earn enough income to enable me to be independent economically, so I can pay my mortgage and the bills.”

One problem was that Toni started her business in the summer and then found that business tailed off in the winter, despite her marketing. “Although there is

obviously more business in the main holiday period, people also go away at other times, or may be sick or in hospital, so there is work to do out of season," she points out. "It has been difficult, because it has meant not being able to take money out of the business."

Toni has recently been on a workshop at the franchise head office, with other franchisees also starting out and has been reassured that business will pick up. "The franchisor reassured us that we are doing OK and we have done the groundwork, so business will take off in the next six months," she says. "One of the most important things to do down here is networking, with business groups, women's groups and so on."

One big plus has been the feedback from existing customers. "Without fail, every customer has given me very good feedback," says Toni. She is looking forward to her business growing and remains cautiously optimistic about the future of her franchise.

3.3 William Pratley TaxAssist Direct franchisee

Being made redundant in one's mid-fifties can be a nasty shock. For William Pratley, however, it has been the stepping-stone into building a new franchise business.

William is a qualified accountant and had commuted for 20 years from his home in Maidenhead to his job with a major accountancy firm in London. By the middle of 2004, William was aware that he needed to weigh up his options beyond his present job. "I was working on a project and I knew that at the end of it, there was the likelihood of not being another role for me," he explains. "I would probably have been looking anyway, because when you are in your mid-fifties, in a corporate environment you are on a downward track."

So William began to research the possibilities of changing track. "After commuting to London for 20 years, this would be a chance to do something locally," he comments, "and every time I looked at the options, franchising seemed to be the one I came back to, because it provides a proven product or service, plus backing."

Initially, he was attracted by a business selling language software. Since William is a linguist and speaks both French and German, he was interested, but when he looked more closely at the figures, he began to change his mind. "My immediate thought had been to find a franchise to replace the income I would be losing from my full-time job and that was something the language software could do easily and quickly, with a relatively low up-front investment and very little overhead," he explains. "But as I went through and looked at the situation, I realised that because I would have some redundancy money and I could also take early retirement, I would not be without any income at all, so I began to think about what I really wanted."

William realised that he would receive enough replacement income from his former employer to have time to build up a business over a period of time. "So I looked at other things and at what I am really good at, which is accountancy and tax," he says. "So I then began to look for a franchise related to that."

William attended a PRIME franchise workshop in November, which he found a useful way to get more information about franchising, including talking to a number of franchisees. "It was apparent that a lot of people in a similar position to me had not been able to make a decision at all, and had then used a substantial amount of their redundancy money for income - making it more and more difficult to set up in business," he comments. "I decided then to definitely go for it and set up in business." William researched franchise options further and was attracted by a franchise called TaxAssist Direct, which provides tax and accountancy services for small businesses.

"I went along to TaxAssist Direct's Discovery Day in December and I liked what I heard," he explains. "They were very open, honest and professional." TaxAssist Direct allocates its franchises geographically. William did some research and

chose the High Wycombe area. "We had already decided to sell our house in Maidenhead and go to the Chilterns, so that was fine," says William.

William picked a solicitor recommended by the British Franchise Alliance and instructed them to look at the franchise agreement. "That took a bit longer than I expected, but they were very thorough," he says. As a result, William was able to sign his new franchise agreement in February 2005 – having been made redundant at the end of January 2005. "I did wake up in cold sweats worrying about the future," he acknowledges. "But because I finished work on 28th January and began the new franchise straightaway, it has been a good transition."

William has put together a business plan and a profit and loss forecast for his new career. "With this, the biggest investment is probably the fact that there is no profit in the first year, because I start with zero clients, although having said that, in fact I already have two or three clients through personal networking," he comments. His aim is to build up a business that will have a turnover of £300,000 in five years' time and that will provide him with choices as he enters his sixties. "I may be happy to work on past then and beyond," he comments. "That is the beauty of franchising, the flexibility."

William will have to pay a franchise fee to the franchisor, which is based on his eventual turnover. He will also have to sell his services to his local client base, which is the aspect of the business where he most welcomes the training and support he is getting from the franchisor. "They provide material and leads and so on and also a good practice management software system, and a whole load of things that I then don't have to worry about," he points out. "Obviously, I can't underestimate the competition, but I have the TaxAssist Direct organisation behind me to help with the marketing and that means we can offer the kinds of services to small businesses that would be available from a reasonable-sized firm of chartered accountants, which many of the competition, who tend to be one-man bands, can't offer."

William has found some of the red tape involved in setting up his business a bit off-putting. "The banks are not always that friendly," he says. Initially, he will run his business from a serviced office in a business centre and aims to move into his own shop-front premises within a couple of years.

William is changing his lifestyle, but is not aiming to work fewer hours. "I won't work less, but I do expect to enjoy it more, because I will be working for myself and I will be working in the community where I live. I think that will be a real kick," he says.

3.4 Mike Freedman AquaAid franchisee

Lugging heavy bottles of water about may not seem like an ideal business to start in one's mid-50s. But Mike Freedman, who is now 60, bought into the AquaAid franchise four years ago, when he was 56.

Having spent his career in a family firm in the paper industry, Mike had sold the business and then lived off the proceeds for 16 years. "Eventually the money runs out and I needed to look for some way to make a living," Mike explains. "At my age, and having only ever run my own business, apart from working for my father, I considered myself unemployable. I didn't want to go back into the paper business, which had become highly competitive. I wanted to do something totally different."

Mike did some research and came across the AquaAid franchise in a newspaper article. He was attracted to AquaAid, which sells and installs water coolers, for several reasons. First, it was straightforward. "Water is a simple business," points out Mike. Second, a percentage of the AquaAid turnover is given to charity. "Last year, we raised £450,000 for Christian Aid water projects and that sits very comfortably with all our customers," says Mike. It also provides AquaAid with a Unique Selling Point in a competitive market. "It is a tremendous USP," Mike comments. "As long as we stay competitive in price, our customers love it."

AquaAid, which is owned by the Searle family and has its head office in Cambridge, divides up its franchises regionally. "When I contacted them, they were looking for a franchisee in Swindon, which suited me, as I live in Amesbury."

Following his application, Mike was interviewed several times, first by business consultants and then by AquaAid in Cambridge. Once he had signed the franchise agreement, Mike had a week's training. "The training was compulsory and I'm very glad it was," he comments. There was other support, too, from AquaAid, in the early days. "Head office set up the first account and someone came down to help me with cold calling," Mike says. "It was just myself at first. I took a driver on three or four months later and for the first year it was just the two of us, doing everything, which was a bit tiring at my age."

Now, four years later, Mike employs six staff, including his own son. "That has been a tremendous help," he comments.

Mike has found the financial aspects of the business tougher than expected. He paid £30,000 for the franchise and then spent a further £12,500 on setting up the business, but has found it hard to get into profit. "We allowed £50,000 to be profitable, but it was double that and that was very hard," says Mike. "If we had gone to the bank needing £100,000, I doubt we would have got it. And this can be a tough business. You're always waiting for the next year, when the rentals are due."

Mike has found the business cash flow difficult to handle: "You can't take on the staff you want to, because the cash isn't there," he points out. "We have some

very good customers now, from very large accounts to much smaller businesses, but we keep them all on a very tight rein – it's a cash flow thing."

Keeping a tight rein has other advantages. "Because we do monthly billing, the amounts are quite small, so if we do have any bad debit, it will be a maximum of £200 or so," says Mike. "We are now building up the business and we are getting some momentum, so present customers are adding new coolers on and people who are unhappy with their present supplier are coming to us. We deliver to our bigger customers once a week and our smaller customers once a month, so we actually get quite a bit of business from people who have seen our vans in the area. We are getting very good growth; now it is a question of making money."

One of the disadvantages of going into business as a franchisee is the annual fee that has to be paid to the franchisor, and this is something Mike has found particularly onerous. "The franchise management fee is 10% of sales," he points out. "Last year, that was £30,000, which is not much less than I am paying myself. It is tough, working for yourself 14 hours a day and then having to write a cheque to head office." Mike signed a five-year agreement with his franchisor and hopes to renegotiate the terms when the contract ends.

"Not being able to take on anyone for over a year meant I had to be very hands-on and I also had to use every single ounce of business knowledge to make this work," says Mike. "Without that background, I think we could have got into trouble. I see some people, for instance, who are actually afraid to ask their customers for money, for fear of losing them. You can't run a business like that. We get most of our customers to pay upfront. It isn't rocket science, but you do need so many disciplines to run a business."

Despite these caveats, Mike says there are many positive sides to the business, including the criterion he began with: "It is a business that is simple to understand and you can really work on it," he says. "If we did no more sales and marketing at all, we would still increase the business."

He is now looking ahead and has plans to ease off, by increasing the role of his son. The aim is to turn the business into a limited company, 51% of which will be owned by Mike's son. "By the end of this year, I want to ease back a bit," says Mike. "I want to do more on the sales side and less of all the lugging around. In an ideal world, I'll be sitting back and taking a little time off."

3.5 Derek Hodd

Expense Reduction Analysts franchisee

In 1999, Derek Hodd was 50 and was working as a company director when he decided to make a career move into the franchise world.

“I was working in the alloys business, buying and selling, but it was a highly cyclical business, where it was difficult to make money, and I decided it was time to do something else before it got too late,” Derek comments. As company director, Derek had extensive managerial experience that he felt would be useful, but he didn’t want to run his own business. “I didn’t want to remain an employee and the advantage of a franchise is that it is a more proven model,” he points out. “I didn’t have a unique idea or a hobby that I wanted to turn into a job, like some people do, but I did have experience of managing a business.”

To find a suitable franchise, Derek attended a franchise exhibition and was initially attracted by a printing business. “I was seduced by the idea of the big turnover, but I came to my senses just in time,” he explains. “I was 50. I realised I didn’t want to take out an expensive lease on premises and equipment that would be secured against my home.” Instead, he decided to find a different franchise that he could run as a one-person operation, from his own home.”

At the time, Derek found there were relatively few franchises in the business-to-business world. “I wanted to stay in B2B, so I could still put a suit on and go to business meetings, but that that time, although it may have changed now, there were only a couple of companies around,” he says.

Derek chose Expense Reduction Analysts (ERA), a cost management and procurement consultancy. ERA has a sister company, Auditel, that focuses on cutting utilities bills for clients, while ERA works on all other aspects of company spending, from print costs to freight, insurance, telecoms, waste, packaging, travel and many other expenses.

Derek, who lives in west London, paid £19,000 as a franchise fee. Setting up the business involved few other costs. “The main costs in that first year were travel and telephone,” he says. “Because I was working from home my overheads were modest. I already had a computer and a suit.”

Derek felt the initial support and training he received could have been better, but says things have now changed. “Things are different now and I think the business is quite well set up,” he comments. “The good thing about a franchise is that they have been through it all before, so there are relatively few surprises - and answers to most of the questions.” Derek’s main support has come from other franchisees. “In our particular franchise, the biggest support is from colleagues,” he says. “We have regular meetings every six weeks and there is a bulletin board. It is all very helpful.”

ERA does not split up its franchises on a geographic basis; its franchisees are free to sell to clients anywhere in the UK. In order to manage this situation, all the franchisees log their prospects and clients in a central database, to which

everyone has access via the Internet, so there is, in theory, no chance of overlap. "It stops multiple people approaching the same client," says Derek. He feels the system works well. There are some instances of overlap, but most, he says, are based on errors, where postcodes or other information have not been clear. In fact, he adds, most of the franchisees tend to focus on clients within a radius a couple of hours' travel from where they live. "But with cheap flights, you can have far-flung clients," he comments, "and I have been to some strange places."

Like many other franchisees, Derek found the first year was the toughest. "It was like a jumbo jet taking off," he says. "It was very slow and heavy, but once we got to cruising altitude, things went very well. You don't expect to make any money in the first year, so you have to have a financial cushion. After nine months, I said to myself that I would no longer dip into my savings and would live entirely from the business, but it was probably about nine to 12 months before the first substantial invoices went out."

Getting the hang of the business was tricky, he acknowledges. "I was on a very steep learning curve," says Derek. "You do have a large amount of information to understand and talk to clients about," says Derek. "But now I am delighted with how the business is going."

Derek set himself a target of earning about £40,000 a year. "That was a fairly modest target that I felt was achievable," he says. "But now – well, my tax bill last year was £40,000, so I am very happy with that. More than that, it is the ability to set my own diary. For instance, I have bought a house in Spain and we can go out there when we choose. I can take a laptop with me and do my reports out that. I have a target to achieve, in terms of billing out so much business every month, but I have time to go to the gym twice a week."

Derek feels he made the right decision by opting for home-based business, rather than a business involving premises and staff and he thinks his existing business will carry him forward into retirement. "I have no set time when I want to retire," he says. "It certainly won't be soon, because I have one daughter doing an MA and another at university, so I'm not stopping yet, but technically I could ease back, spend more time in Spain and take on fewer projects, so I am hoping to carry on and have a better work/life balance. This is certainly a better way to earn a living than being on the kind of treadmill some franchises can turn into."

3.6 Alex Leonard

Possible franchisee, residential lettings sector

To franchise or not to franchise? That is the question that faces many prospective franchisees when they begin to look more closely at the franchise prospect.

One person on the verge of answering the question is Alex Leonard. Now 64, Alex is the former managing director of a successful software company, which he ran for 10 years, following his former career in the insurance industry.

Having retired from the software business a few years ago, Alex has now been tempted back to the world of work. "I have been out of the business for some years, but decided to look at franchising in 2004," Alex explains. "It was something my son and his partner wanted to do with me, as a family thing, and I thought, why not?"

Alex has considerable business experience and says his previous job, setting up the UK operation for a Swiss-based parent company, was similar to a franchising operation. "I persuaded the Swiss owners to let me bring the business to the UK, so I have been here before, because that was effective a franchise deal, although one where I enjoyed a lot of freedom," he says. So when looking for a new business, Alex decided that buying into an existing franchise would provide a quicker route into a new market.

To find out more, he attended a British Franchise Association meeting. "It was very useful and opened up a much bigger range of franchises to select from, which made the whole thing almost intimidating," comments Alex. "It drove us back to look at ourselves and our skillsets and what we were good at: did we want to drive a van or wear a suit?"

One of the advantages of Alex's situation was that he had a lump sum from his previous position that he would be able to invest in a franchise, rather than having to borrow money to do so. "That was fortunate, but we still felt it was important to have a business plan," he points out. "We had to know how much we were prepared to lose if all else fails. "

Alex found talking to franchisors very helpful when putting together his business plan. "A lot of franchises were very useful in filling in the grey areas in the business plan," he says. "When you start, you have no idea about the margins in certain areas and the franchisors often gave us draft business plans that had a lot of information of that kind, which was very useful."

Having looked at the options and at their own capabilities, Alex and his two prospective business partners decided they wanted to go into the residential lettings business. "It's still a growing market, even if it is not growing quite as fast as it was," says Alex. One of Alex's prospective business partners already works in the lettings business.

Having opted for the lettings market, Alex then began to research two potential franchises in more detail and to look closely at the figures involved. "We

narrowed it down to a single business and then looked at the franchises," he explains. "We have had in-depth discussion with two specific franchises."

Alex has done a lot of research into franchise operations in the lettings market. "We have looked at their track records," he says. "We have also gone onto their websites and had a look at how easy they are to use and how easy it would be for potential customers to find us, if we were there. So just by putting ourselves in the position of potential customers, you can weed out a lot of stuff. We felt the two franchises we ended up with had something to offer and were a bit different. One of the companies, for instance, had a lot of corporate customers and that could be helpful in putting business your way, so they were providing added value and that is important, because we wanted to know what we would get for spending all this money with them."

When Alex looked further into the figures, he began to find a number of aspects of the franchise business that could present problems. "When we went into the detail again, we felt the figures didn't add up," he explains. "The firms we were talking to wanted a percentage of our turnover, rather than our profit and that is a big difference. It could account for up to 50% of our potential profit. We also felt they were a little over ambitious. They expected, for instance, that we would have business on day one. But what if it takes three months to get our first client? We felt that an over-optimistic business plan can get you carried away. We wanted to build from thinking about the possible downside, but all the franchisors we talked to were always too optimistic and that worries me."

Having looked at the franchise option, Alex and his partners have now decided to set up their own business, rather than go with a franchise. "With a franchise, there are rules to play by and you have to do it their way," he points out. "That is not too much of a problem, but you need to look at what is left after paying the franchise fee and whether that amount is big enough to justify the investment."

Alex adds: "By not going with a franchise, we may put ourselves at a higher risk at first, but against that, we don't have to make so much profit in order to succeed. We also think that not being within a franchise will give us more opportunity to stand out of the pack. Some franchises are innovative, but certain things are fixed, such as the website design, which is certainly one of the ways in which you can make your own business stand out. We haven't made our minds up yet, but we are certainly leaning towards going for our own business. We would have the same financial aims, but delayed somewhat, quite deliberately."

3.7 Female franchisee Stagecoach Theatre Arts

[This respondent prefers to remain anonymous - PRIME]

Taking on a franchise in a very different area from an existing professional career can be daunting. But for one franchisee in a south coast town, moving from nursing to running stagecraft classes for children has been both an enormously fulfilling change and a way to provide extra income after retirement.

“I was a nurse in operating theatres for many years and wanted to do something else,” explains our franchisee. “So I did a BA in arts and music and an MA in arts management. I then went off round the world and when I came back, I went back to nursing - but I was looking for something in the arts. I had a friend who saw an advertisement for a franchise running a part-time stage school for children. So we went into the business together and after a few years I wanted to open a second school. So my friend bought out the initial franchise and I started the second school with another friend.”

The Stagecoach Theatre Arts Schools franchise runs part-time theatre workshops or schools for children in the UK and other countries. The business was set up in 1988. Each workshop or school holds 45 pupils and is run as a separate franchise contract by a principal. The principal hires the professional teachers and trainers used to run each week’s classes. There are three terms of about 13 weeks each a year.

When our franchisee first got involved in this business nine years ago, she was 51 and was specifically looking for something that could be developed in tandem with her nursing job, to provide extra income in retirement. “I persevered with nursing, because of the pension, but I started a franchise with the idea of gaining extra income,” she explains. “I wanted to work in the arts, I like children and I didn’t feel they were able to fulfil their potential just from what they were learning at school.”

The first franchise cost £3,500 and since selling that one to her initial partner, our franchisee and her second partner have taken on six franchise contracts in all and now run three three-hour stage classes for seven- to sixteen-year-olds and three one-and-a-half-hour classes for children aged four to seven. The price of the franchises have gone up over the nine years since our franchisee began in this business, but her overall investment in franchise fees has been just over £20,000.

The annual franchise fee comes to about 15% of turnover. This includes a fee for national advertising – local advertising is paid for by the local franchisees. “It is quite high, but for the amount of support we get and the way they look after us, I don’t have a problem with it,” says our franchisee.

As with other franchisees, getting the business going in the first year or so was hard work, but this franchisee has nothing but praise for the support from her

franchisor. Following an initial interview, she had a week's initiation course at the company's head office in Walton-on-Thames.

She is particularly impressed with the company's proactive approach to what could be potentially problematic areas in working with young children. "There is a very strong child protection policy in place," she explains "and the schools are inspected, without prior notice, every term. I think all the franchisees feel that the reputation of all the schools is vital. If there are any problems whatsoever, we can just phone the head office and get help. Fortunately, I have never had any problems. But I get a lot of administrative and business support from head office."

Stagecoach provides its franchisees with a manual explaining how to run their administrative systems and also provide an accountancy service. "We send in a floppy with the turnover on and the whole company belongs to the same accountant, so that saves having to pay for a chartered accountant and means we are well-covered," says our franchisee. "It has been a very positive experience. I know there are other franchises in a similar field where things have not been so positive, but I feel that if you follow the franchisor's instructions and go along with them, they will help you and there won't be any problems."

The biggest challenge for our franchisee was running the franchise business at the same time as keeping on her full-time nursing job, which she saw through to retirement age at 60 in May 2004. "The franchise took all my spare time, and I was exhausted by the time I finally retired," she comments. "I don't quite know how I hung on in that last year, because by that time we were running the six schools, so it was a lot of work."

Now, however, things are much easier. "The workload is fine. I spend two or three days a week doing the administration at the beginning of each term and that then gets less as the term goes on," our franchisee explains. "It brings myself and my partner a good income, but more importantly I get a great deal of pleasure out of it. I love seeing the children gaining confidence and getting letters from parents about their children and my partner feels exactly the same. We each have our own area of the business, so we don't overlap, but we help each other and it is good to work as a partnership. I'm 60 and she is 64 and for the time being, the plan is just to carry on. I suppose we may sell the franchise at some point, but for the moment, there is no reason to stop."

This franchisee was very clear that although she had professional skills in one particular area, nursing, she wanted something different from a franchise. "I was offered a partnership in a nursing home, but there was no way I would take that," she comments. "I know all the pitfalls and how hard that can be. I wanted something I was going to enjoy, something in the arts."

3.8 Ray Lowe Photography franchisee

[This respondent prefers us not to name the franchisor - PRIME]

One of the drawbacks of buying a franchise is that things can change and even those with extensive business experience can get caught out. This has been the experience of Ray Lowe, a photographer who was running his own business when he bought a franchise with the aim of selling it and retiring.

“I’d been running my own photography business for 25 years and had never made a secret of the fact that I wanted to retire at 55,” explains Ray. “I lead a very busy and active life, including a lot of voluntary work and I didn’t want to work up to 65 and then die a couple of years later.”

So, when he was in his late 40s, Ray decided to buy a photography franchise, run it for a year or so, and then sell it on to a member of his own staff. “The young man had been with me for 13 years,” explains Ray, “but he didn’t want to take over Ray Lowe Photography. Buying a franchise would be ideal. No one would know who owned it behind the brand. We agreed I would run the franchise for a year; and he would then buy the franchise at an agreed time.”

Ray was confident about the franchise business he was buying into. He’d known the people running the business for some time; they had started a sales and marketing business for a smallish group of photographers, including Ray. “Because of my own experience, I was taken on as a photographic trainer and I didn’t have to pay a fee for the franchise,” says Ray, who signed a five-year franchise licence contract with the franchisor.

In addition to his own photography business, Ray had also previously set up a commercial photography business and a separate operation taking pictures of babies. After signing the franchise, he then moved his own business into separate premises.

At first, all seemed well. The franchise specialises in high-quality portraits, and had very clear branding concepts, including a refit of the studio that cost Ray £25,000. Ray took out a five-year bank loan to pay for the refit and was looking forward to making a good profit on the anticipated turnover from the franchise. But he has found it harder than expected to make a profit. “Last year, we had a turnover of three quarters of a million pounds, but our profit was only £10,000,” explains Ray. “That really isn’t worth it. And we didn’t make any profit at all until our profit was up to half a million. I can get a wage out of it, but as an owner, I expect a bit more.”

Like other franchisees, Ray pays an annual fee to his franchisor. In his case, it is 10% of annual turnover, and Ray is unhappy with the level of support he has had in return for this fee from his franchisor. The franchisor appoints a business development manager to help individual studios develop their business. “Photography is a luxury product and it is important to develop your business,” acknowledges Ray, who also acknowledges that the company’s advertising has

helped make it a recognised brand in the market. But he is less convinced of the role of the business development manager. He has had several different business development managers in the four and a half years of the franchise to date, and says that while some are very good, others are less so.

Looking back at his franchise business, Ray thinks now he should have paid more care and attention to the terms and conditions of the contract he signed. For instance, members of this particular franchise business are obliged to use a central laboratory, rather than being free to shop around for the cheapest processing prices.

“Stepping into the franchise was a very different kettle of fish from running my own business and it is easy now to see the pitfalls,” comments Ray. He acknowledges, that there have been some benefits from the franchise operation. “The price of the product has gone up enormously and we are now able to charge a sensible price for portraits,” he points out.

But the biggest problem with Ray’s business plans came just before Christmas 2004, when the employee to whom he had intended to sell the franchise decided not to go ahead with the deal. That has meant Ray having to rethink his own future, and the prospects for his six staff.

“Fortunately, I have been in this area for 25 years and my own personal reputation is good, so I will be able to turn the franchise operation back into my own business,” says Ray. He now aims to give up the franchise when the contract term expires and believes this will be a straightforward process. But it means he will no longer be able to retire as planned.

Instead, Ray plans to take more of a back seat and let his staff take more charge of everyday operations, something he says they are happy about. “My business will carry on and while they are obviously worried about their jobs, the staff want to stay on with me, which is nice,” says Ray. “At the end of the year, I will save thousands in not having to pay a franchise fee and if I can’t take out more than the £10,000 I was getting from the franchise, it will be a sorry state. But it means I have no chance of being out of the business by the time I’m 55.” Ray’s business may also face extra competition from whoever decides to take over the franchise once he has let it go.

Looking back, Ray feels he has learned some valuable, if tough, lessons. “Take the franchise contract to an experienced franchise solicitor,” he advises. “I had a friend who did that and had some of the more onerous clauses removed. I trusted the people running the franchise, because I had known them a long time, but if you are signing your life away for five years, you have to get someone to read that contract properly.”

3.9 Tony Greenan Printer & computer consumables franchisee

[This respondent prefers us not to name the franchisor - PRIME]

One of the potential hazards of running any business later in life is that ill health can pose unexpected challenges.

Tony Greenan is now 57. He began his franchise business four years ago, at the age of 53, and since then has expanded his business, by buying a share of a second franchise. But recent ill-health has made him reassess his priorities.

In his earlier working life, Tony worked as a production manager for a plastics company. In 2000, he was made redundant and was reluctant to look for another job, feeling he would face age discrimination. "You know the signs are there when you are over 50," he comments. "I also didn't want to face the politics of bloody meetings again."

Tony acknowledges that getting over redundancy can be a difficult experience. "I had to get over what was quite a traumatic experience and that took time," he explains. "It probably took me eight months or so. Having been made redundant, I decided I really didn't want to work for anyone again."

Instead, once he was ready to look at his future employment options, Tony decided to go for a franchise operation, rather than attempting to start his own business. "I felt with a franchise, the research would already have been put in, so it would be more likely to succeed than trying to start my own business," he comments. He also felt getting financial backing would be easier: "Banks are more in favour of lending for franchises, because it is a tried and tested concept and quite often the marketing has already been done," he comments.

To find a suitable franchise, Tony went to several franchise exhibitions and eventually opted to join a business selling and refilling cartridges and other computer consumables. "One of my hobbies is computers, especially on the photography side, so it seemed a good area," he comments. This particular franchise is run by an Australian. Initially, Tony met the UK master franchisee to look at the business figures and to see if he generally liked the way the business was running.

Satisfied with what he had seen, Tony went ahead and bought the franchise in the local area where he lives, Leigh-on-Sea. His aim was to set up the business and then, eventually, hand it on to his daughter and son-in-law.

"I probably had no business experience and I certainly had no retail experience," Tony says. He paid £40,000 plus VAT for the franchise and spent two weeks in Australia, getting training from the franchisor, before setting up his own operation.

The franchise fee included some money towards finding and leasing a suitable shop premises, and Tony spent a further £2,000 on fitting out his shop, once he had found it. That proved one of the hardest aspects of starting the business. "I

drove right round Southend and Leigh-on-Sea to find somewhere I was happy with," he explains.

The first premises he found fell through, but he was soon able to find the premises in which his business is now based. "We are on the corner next to traffic lights, so every time those lights turn red, my yellow and blue shop stands out," says Tony. "The only thing is that perhaps now I wish I had got a bigger shop, but at the time, it wasn't so easy to find the premises."

Tony's aim for the first year was to take things steadily and learn the business. "I was a bit wary and didn't try to grow the business too quickly," he says. "Also, we had some holiday booked, and I didn't want to go away and feel my daughter wouldn't be able to cope. But she was fine and after that, we began to grow more quickly."

In fact, Tony liked the business so much that he and his wife bought another franchise from the same franchisor, splitting the cost 50% with another couple. The second business is in Nottingham. "We drive up about once a week and we can generally leave in the morning and get back the same day," says Tony.

"It is vital to do the research and be sure in your own mind that the business will work," Tony comments. He took out an initial £40,000 bank loan to pay his first franchise fee. That loan has almost been repaid, but he took out another loan to pay for his share of the Nottingham business. He pays an annual franchise fee of between 6% and 9% of his turnover. This includes a 3% advertising levy. Advertising costs are a sore point. "I was the seventh store to open and ended up spending a lot of money on advertising," Tony explains. "Radio advertising, for instance, could cost a thousand pounds a week and you've got to sell an awful lot of cartridges to get that back. Since then, other people have opened up franchises and have come to me to talk about splitting the cost of advertising, but I'm not paying that."

Tony's business has done well, driven by the boom in digital cameras and people printing more photographs at home. But ill-health has interrupted Tony's plans. "We were getting good returns from the business, and my plan was to pass the business on to my daughter and son-in-law and put my feet up," he comments. "But then, three months ago, I had a heart attack."

Tony is back at work, but the heart attack has affected his plans. He now spends less time at work. "When you have to pay to employ people, it eats into the profits," he points out.

Tony is still working at his business and is still spending time travelling up to Nottingham to work in his second franchise unit. His illness has made a difference to how much time he is putting into the businesses, but overall, Tony feels the experience has been a success. "The franchise fees have gone up, but so has the value of my business," he points out.

3.10 Ashley Carr **Auditel franchisee**

Ashley Carr was in his early 40s when he decided to change career direction and become a cost management consultant.

Seven years ago, Ashley bought into a franchise business called Auditel. It was set up in the UK by a South African barrister who realised that following deregulation there would be an opportunity to advise small and medium-sized businesses on how to cut the cost of their utilities and telecoms.

Ashley was one of Auditel's the first UK franchisees, but the business has grown and there are now some 115 franchises in the UK, Northern Ireland and Eire.

Ashley had no background in the cost management area. He had spent the previous four years running his own graphics business and before that had been in the exhibitions and conference market. "I just wanted a complete change," he explains. "I wanted to stay in the business world, because I wanted a white collar environment, so I was looking for a vehicle to do that. I was not confident enough to come up with my own idea and take it forward, which was why I decided on a franchise."

To choose a franchise, Ashley went a long to a franchise exhibition, having done some research. "There were two or three options I wanted to look at," he explains. "I met Auditel there." There were other, similar franchises in the cost reduction market, but Ashley liked the people he met from Auditel, particularly the UK franchisor. "I basically bought into him," says Ashley. "He was a dynamic, committed individual and I knew he would take this fledgling company and make it successful."

Despite this, Ashley was cautious. "I don't think anyone getting into business can be completely confident about what will happen, but you have to make decisions on the basis of probabilities," he says. "The most important thing was that I liked the people who were leading the operation." There were some caveats: Ashley felt the training he received could have been better and says the company has now improved in this area. "It didn't bother me particularly," he says. "I had some experience of selling, so I brought those skill sets into the business."

Ashley was attracted by Auditel's approach to the market. "The Auditel business didn't seem to have too many flaws," he says. "The idea is that we will save companies money, and if things get tough, that's even better for us. The biggest question was whether I could do it. I needed enough money not just to purchase the franchise but to survive until I got some positive income from the business."

Ashley found his bank was relatively happy to lend money to buy the franchise. "The question was what qualities I would need and it is the same as in any business," he points out. "You have to be prepared to push yourself and do things you might never have done before, especially if you have come from a corporate background. You don't have people running round after you, you don't have sales

and marketing people, you don't have a car provided - and you don't have holidays."

Ashley paid £16,000 plus VAT as a franchise fee and earned very little in the first year. "I was prepared for zero salary, so anything I earned was a bonus," he says. "In fact, I earned about £3,500." Although prepared to work hard, Ashley did find the first year tough. "Under pressure, you can easily make mistakes and start panicking," he says. "So that first year was hard, but laid the foundations for the business. You don't believe you are getting anywhere, but you need that foundation and support.

"By the second year, it started to pay off and after about 15 months I realised that the money was coming in, where only a month before I'd been thinking this was the biggest mistake of my life. That may have been a weakness in my forecasting, but looking back, I could see I'd been doing the right things, and once the business was set up, I gained rapidly in experience and in profits."

After seven years, Ashley is now earning a substantial, six-figure sum from his franchise. "Once I was established, I have been able to have a degree of relaxation in the business that few enjoy," he comments.

When Ashley bought into Auditel, the business was not accredited with the British Franchise Association, although it is now BFA-accredited. "I'm glad it wasn't at the time, because I would probably have had to pay a huge amount to the franchisor."

Auditel consultants, such as Ashley, work with clients to recommend ways in which they can save money on a number of key areas, including utilities. Ashley focuses on selling the Auditel services and managing his client's projects. "I can easily handle 40 or 50 clients as a sales person," he explains.

Ashley's advice for potential franchisees is that they should be very aware of their own strengths and weaknesses, as well as those of the franchisor. "You need to meet the person ultimately responsible for the franchise and you have to believe they are capable of delivering the promised business," he says.

"But in the end it is down to you - and you have to have an honest appraisal of yourself. In my case, I realised I would need support and wanted to be able to liaise with others, so I felt a franchise was my only option. It's probably not true now, but it was at the time and led me into this business.

"I think people need to be aware, particularly if they come into a franchise from the corporate world, that they are not buying a job. You are buying an opportunity. It is a business and has to be run as a business and you have to have the right skills for that."

3.11 Richard Bird Initial Citylink franchisee

Richard Bird opted for franchising having tried both working for other people and working in partnership.

When he bought his franchise, almost 14 years ago, Richard was in his mid-40s, and was looking for something that would be very different from his previous business experiences. "I had worked for a US company and had been made redundant, so I set up a typesetting business with some friends," he explains. "When that business split up, I felt franchising would be the way forward for me. I wanted to do something different; I didn't want to be in business on my own, but I had had enough of partners!"

When running his typesetting business, Richard had used parcel delivery services and when he began to research the options in terms of a franchise business, he felt parcel delivery would be a good business to get into. "I looked at printing, but I wanted a change and I was always interested in transport," he says. To find a suitable franchise, Richard contacted a number of different parcel delivery companies and felt Initial Citylink, which at the time had a franchise available in Bristol, would be the best fit for his needs.

"Buying the franchise was fairly straightforward," says Richard. "I worked for a week at one of the existing Initial Citylink franchisees to get a feel for the business and that gave me a good background. Things then moved on rapidly." Richard made an initial investment of £60,000 to buy the franchise and also made an arrangement with his bank for a £100,000 overdraft, to fund the initial operation. He and his wife then began to run the Bristol-based parcel delivery service, taking on the existing staff already working in the business.

"When we took over the business, it was ticking over," he explains. "It had been owned by the franchisor and had four vans, a couple of motorbikes and 10 staff. But the first year was tough. We had to change the whole idea away from a head-office operation, which was not particularly profit-oriented." In contrast, Richard and his wife were keen to make get the operation into profit quickly. "We had to make a profit, and did so in that first year," says Richard.

Richard realised the business had considerable potential. "We were mainly delivering parcels in the Bristol area, but in order to grow, we had to get into the business of collecting parcels, to pick them up and put them into the network," he explains. With Initial Citylink, all the franchisees work together, so parcels picked up in Bristol will be delivered to their destination by the other franchisees in the Initial Citylink network. This makes the business very different from many other franchises, in that there is a network where franchisees depend on one another for efficient delivery. "If we have a parcel that has to be got from Glasgow to Bristol and we deliver late, it's the Glasgow franchisee who suffers," points out Richard. "We are totally autonomous, but the franchisor is supportive if you do the job properly; if you don't, there are ways of removing you."

There is a more formal structure to Initial Citylink than with some other franchises, partly because of the networked aspect of the business. The franchisor appoints regional operators and managers, as well as regional sales staff. There is also a central finance director, who visits each franchise annually to look at the figures and advise on spending, where it is felt that costs are out of line with the other franchisees. "We look on it as positive," says Richard. "It is not a big brother thing. We run as a separate limited company and we have a very strong franchise agreement." Franchisees in the network set their own prices and meet annually, in addition to an annual meeting with the franchisor and an annual sales conference.

The business has grown considerably since Richard and his wife took it on. They now run Initial Citylink franchises in Bristol, Bath and Swindon, employ about 200 people and run some 90 vehicles. They have a turnover of £8 million a year, up from £150,000 when they first took on the Bristol business 14 years ago.

The biggest challenge for Richard has been getting used to employing and motivating staff, and in recruiting and retaining people. "That is still a big challenge," he acknowledges. "But we have been lucky. We have grown and so has the whole Initial Citylink network. We don't sell on price. We are probably one of the more expensive services. Our selling point is the quality of our service."

Richard's advice to would-be franchisees is to go into the business with a clear idea of what is entailed. "The big thing is to talk to existing franchisees," he comments. "Working that week made me see both the good things and the bad about the business. I went to one of the biggest existing operations at that time, which was very impressive, but it had been in business for five or six years. I also went to one of the smallest and it was a very different business, working from a farm building in the depths of rural Lincolnshire."

Richard believes one of the strengths he has brought to his franchise operation is his background in business, particularly in sales. "I think that has probably been quite important," he comments. "It would be very difficult to run this kind of business without the sales experience. I don't do the selling myself, but one of the first things I did was employ a salesperson."

Richard also advises franchisees that they have to be ready to work in every aspect of the business themselves. "I've worked as a driver myself," he points out. "In the early days, my wife and I were both out driving. I've also worked in the warehouse. This is very much a hands-on business and you have to be prepared for that."

Chapter 4

PRIME's verdict on franchising

4.1 Franchising is an appropriate solution for some over 50s

The good news is that after polling and interviewing nearly 1,000 people for PRIME's full-length research report we found few signs of age discrimination or ageism in franchising. This means that franchising is one of the few "solutions sectors" truly open to older people. There may still be issues of access to do with cost, the number of good franchises available - and various other pitfalls. But franchising does deserve to be an option worth considering because age - at least for those in their 50s, doesn't seem to be much of a barrier at all.

Franchisors mostly seem well-disposed towards older applicants, and value things 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 discrimination here is in favour of older people.

We found a high level of satisfaction, with just a few exceptions, among those in our age group who have successfully negotiated the franchising route into business.

The contrast with the conventional employed sector is stark, where many people their 40s and 50s are worried that their employer wants to replace them with someone younger, and where hiring a person already in their 50s is rare.

Franchising can potentially offer a sustainable livelihood for the final decade or two of your working life. It is certainly worth considering - perhaps before your employer finds a pretext to suddenly oust you.

However, franchisors also want energy, an often-substantial investment and compliance with their own way of running the business. Before you can buy the more desirable franchises you often have to get through a demanding and competitive selection process, so franchising is not without barriers of its own.

The best franchisors are highly selective. This is a good sign (better than them just taking anyone's franchise fee, overselling territories and diluting the quality of the network), but it means the level of drive and sometimes experience required is high.

You also have to be willing to follow procedures devised by someone else. Poll 4 showed that many older people rule themselves out for franchising because they don't want to follow other people's rules any longer, don't want to risk their life savings or simply feel it's time to wind down.

But we found it is not till people are in their 60s and 70s that a really significant decline in interest in franchising or starting a business kicks in. As the franchisee

case studies testify, many people in 50s and early 60s are very committed to working and still keen to start out on their own.

"The main benefit of franchising for me is that what I've done before in business has been lonely. Now I have a very good support system. At any time I can phone and there's someone there I can talk problems over with. I'd encourage people who want to work independently but would like backup to get a franchise."

Recently-started franchisee, polled by PRIME.

4.2 But the entry cost is a barrier to many

So if age itself isn't a barrier what is? The answer from many of our respondents was money, for significant capital investment is often required. You need to be able to find not only your initial investment, but also enough to cover your 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. And 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. So while costs vary between sector and preferential finance packages are sometimes available, the investment sums required can be off-putting.

The initial investment is made up of the franchise fee, which our research found was likely to be at least £10,000, and other start-up costs which will vary according to the specific business. We found that the cheaper deals were mostly of the job-franchise type, where the franchisee is both owner and operator and provides all or most of the labour.

This initial investment is not the only investment required. Both the franchisees and the professional advisers we talked to pointed out that you also need to have funds available to support yourself during the whole start up period. It can take months or years before the business can cover its own costs and start to generate an adequate income.

So people with insufficient personal wealth or problems accessing bank finance are likely to face difficulties getting involved in franchising. The latest NatWest/BFA survey supports this conclusion - it found only a very small proportion (6%) of respondents had come into franchising from redundancy or unemployment.

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.

"Make sure you have enough money, both to start up then trade and live whilst the business is growing."

About-to-start franchisee, polled by PRIME .

4.3 Franchising can make only a small dent in the big problem

How many older people can realistically take the franchise road?

According to the NatWest/BFA survey there are only around 33,000 franchisees (or franchise units - effectively the same thing) in the UK. This number has remained fairly stable over recent years. If we allow for a 10% annual turnover rate, that means only about 3,000 franchisee slots are available each year - 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. To that needs to be added the many people currently in employment who are worried that they'll lose their job because of their age.

Many older people in conventional jobs suspect that it can't continue for much longer, and that one way or another they are going to eventually going to be made redundant or otherwise displaced. The self-employed in some sectors have similar worries as they get older, as their network of contacts dwindles and the people who hire them start to disappear from their posts. This growing unease about whether the present livelihood can continue comes out clearly in two of the Chapter 3 case studies (3.3 Pratley and 3.9 Greenan)

That this category of worried people is large is born out by calls to PRIME's office. Many callers are motivated to set up in business or change employment precisely because they feel their present work may disappear.

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.

4.4 The lower-cost options may be more risky

If franchising is only part of the solution, then what else can the business opportunities market provide? There clearly is a general need for more low-cost, off-the-shelf businesses.

This study did not attempt to answer this question, but we suggest some of the candidates to research in the next chapter. These include structured business formats with some similarity to franchising, such as party-plan selling and direct selling, and also network marketing and home-based businesses including eBay trading and day trading.

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.

There may be a need to look again at how the business opportunities market is regulated. The next chapter goes into more detail about researching improved safeguards. But there does seem to be a severe lack of sensible business opportunities with low start-up costs that fit the needs of the over 50s.

"Prospective franchisees often look for the cheaper franchise which turns out to be more a licensing operation, where they get little or no support or where the trading name is not well known. The better franchisors offer an accepted route to market, ongoing support and are more interested in the growth of the franchisee operations than in simply getting as many up front payments as they can."

Business adviser, polled by PRIME

4.5 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. It's not that they are getting older by the day, like everyone else. It's that if they have no other income they are likely to be consuming their capital. Every month that goes by reduces the amount of money remaining from the redundancy cheque, pension lump sum, legacy, re-mortgage or golden handshake. Capital potentially available for the business is spent on living expenses.

So information and advice that will help them find the right business has to be available promptly, or the opportunity to get into a good franchise may slip away. Rapid re-integration into the world of work is vital. There's a risk even for individuals who start off coping well that they'll end up detached from the world of work altogether, and join the hundreds of thousands of "discouraged" workless people over 50 in the UK.

"It was apparent that a lot of people in a similar position to me had not been able to make a decision at all, and had then used a substantial amount of their redundancy money for income - making it more and more difficult to set up in business."

Franchisee William Pratley, case study - see Chapter 3.3.

Chapter 5

Key lessons for potential franchisees

5.1. It's good to talk

If there's a single lesson to emerge from all the franchisees, would-be franchisees and business advisers we have consulted, it is that you must talk to existing franchisees before making any irrevocable decisions.

And not just ones picked by the franchisor, but ones you select yourself and can relate to. Talking to people who are actually doing the job you are considering is the best way to uncover any drawbacks and decide if a franchise is really for you.

"Talk to existing franchisees to see how the business runs and what steps they took to build their business up."

Existing franchisee, polled by PRIME

5.2 Make sure you've got the full financial picture

You need to know the total initial investment required, and the total recurring costs including all likely charges and fees, and when they will fall.

"Whatever figure you come up with for your projected costs, double it as this is what you really will need to succeed."

Existing franchisee, polled by PRIME

5.3 Be prepared for some lean years - especially at the beginning

There's plenty of evidence from the polls and case studies that it's not easy to predict when a business will start to break even and begin paying you money rather than absorbing it. There was widespread surprise among respondents about how long it took, and many stressed the importance of having some money in reserve.

"It will take longer than you think - therefore you need to have sufficient finance to live."

Existing franchisee, polled by PRIME

5.4 Age doesn't matter - but don't ignore it altogether

While age discrimination is thankfully largely absent from the sector, completely ignoring the consequences of age can cause problems. Think things through at the beginning, paying particular attention to clauses in the franchise contract that bear on decisions you'll have to make a few years down the line, such as the arrangements for terminating or renewing the contract.

5.5 Consider what happens if you get ill

Check the performance clauses of the contract to see if any penalties might apply, and also the provision for early termination. With job franchises the contract may require the franchisee to arrange for alternative cover if they are unable to provide the service themselves - potentially a very major expense.

5.6 Make sure it's really an accredited and approved franchise

Three quick tests: it's unlikely to be a business-format franchise if you get no exclusive territory, there's no proper operations manual and you're not recruited directly by the franchisor, but instead by some distributor or agent. An even quicker test is "Does it belong to the British Franchise Association?", but not all franchisors are members.

For other schemes, particularly those where most of the participants are not VAT registered, the message must be to check it out with great care and get solid, independent advice before proceeding.

5.7 Do your homework

Do lots of research, be very critical of all aspects of the proposition and check the contract. Throwing caution to the wind is not advisable. Be prepared to negotiate with the franchisor to get what you want and do not be rushed into anything. Don't do it until it feels right.

These are all quotes from people actively considering becoming a franchisee polled by PRIME for its larger study.

Chapter 6

Special issues for older job franchisees

Job franchises, the kind of owner-operator business defined in Chapter 2, section 2.3 above, are generally the cheapest sort of business-format franchise. They raise some special issues. There some things potential job franchisees need to look into particularly carefully because problems have arisen for other franchisees in the past.

Five areas in particular are worth special attention.

(1) What happens if you are unable to work?

As an owner-operator with either no staff or very few staff you are essentially running your business **on** your own. But because it's a franchise you are not completely free to run your business **as** your own. For example, you may not have a free hand about when you work and when you don't work.

Check the franchise contract to see what happens if you can't operate the service for some reason – for example if you or a family member is ill. Are there penalties if you shut or don't meet a turnover target? Do you have to pay for someone else to provide cover? Or will the franchisor be happy to arrange cover for you out of the kindness of their heart?

(2) Do you get a genuine exclusive territory?

Genuine exclusive territories are less common in job franchises than management franchises. Without an exclusive territory it is harder to build up much extra value or goodwill in your own particular business, reducing its value when you want to sell.

Be aware of what it means if you don't have an exclusive territory – the downside of you being “free to trade with the world” is that the world – including other franchisees in your system, is free to sell to your customers. So you need to find out how easily other franchisees encroach on your territory.

3. What happens exactly if you want to sell up?

How easy will it be to sell the business on to another franchisee, and what sort of resale value can you expect? What role does the franchisor play in the process - do they have a veto or take a cut? These issues are of particular interest to those nearer to retirement who take up a job franchise.

4. How well-established is the franchise?

New job franchises are constantly being set up. Potential franchisees have to weigh up the disadvantages of joining a small network with little track record or brand presence - and probably no BFA membership, against the claimed advantages of "being in on the ground floor".

5. Have other franchisees in the system had tax problems?

Job franchising is a form of self-employed sub-contracting. Growth in job franchising inevitably raises certain issues to the tax authorities. Notably if jobs that were once performed by paid employees become job franchises, does revenue to the Exchequer go up or down?

This may seem of little interest to the individual self-employed franchisee, but it isn't. If tax revenue goes down a lot it may become your problem. If HM Revenue & Customs takes the view that the system you are involved in a tax avoidance scheme rather than a set of genuinely independent businesses things can get extremely complicated.

There have been major disputes over essentially this issue in the past - in the construction industry of the 1960s, and in the IT and engineering services sectors from 1999 to date (the IR35 issue). Ordinary self-employed people found their plans and livelihood adversely affected. So it's in your interests to make sure the scheme you join is above board and legal - and not embroiled in some complicated dispute.

Chapter 7

Franchising's cheaper cousins

7.1 The world of low-cost business opportunities

The biggest gap in PRIME's research into the business opportunities market is that we haven't looked in detail at the low-cost end. We have concentrated instead on business-format franchising, which tends to be both more expensive and less risky.

So while we've concluded that proper franchising has much to recommend it for those who can afford it, we're not in a position to say much about the cheaper business opportunities many in PRIME's target group will be attracted to. These cheaper options include party-plan selling, multi-level marketing, network marketing and door-to-door selling.

There are important differences between franchising – even the cheaper franchises of the job franchise type, and other forms of business opportunity for sale. Though they may not all be BFA members, genuine business-format franchises are generally a lot easier to evaluate as business propositions.

How do you know if something is a proper franchise? It's unlikely to be a business-format franchise if you get no exclusive territory, there's no proper operations manual and you're not recruited directly by the franchisor, but instead by some distributor or agent. An even quicker test is "Does it belong to the British Franchise Association?"

Does this mean you should avoid other sorts of off-the-shelf business opportunity? No, but you need to take much more care. BFA members observe a code of conduct that makes it easier to evaluate whether the business is a good proposition. If you are not dealing with a BFA member you are going to need to do more checking yourself.

There are a large variety of different business propositions other than franchises available for purchase. Many of them are a bit like franchises in that they are structured - by this we mean that the proposition is more than just a money-making idea, and that it is available in multiple units. In other words it's not just a one-off business that's for sale, but an existing structure that you are buying into.

These other structured business formats raise different issues and in some cases concerns to franchising. We briefly go into some of the issues for those considering party-plan selling below in section 6.3, multi-level marketing and network marketing in section 6.4, and eBay online trading in section 6.5.

The fear with low-cost business opportunities is that you will get what you pay for - in other words, not much. For example, you may get much less training and support than with a more expensive franchise, because there is less revenue coming in to pay for it.

7.2 Trading schemes and other non-franchise selling businesses

Most of these low-cost business opportunities involve you in selling, usually as a self-employed agent or distributor. Party-plan selling (section 7.3) is an easy-to-understand example many people will be familiar with, but there are plethora of other selling approaches, each with their own pros and cons.

According to the Direct Selling Association, over 21,510 people worked full-time as self-employed sellers in the UK in 2002, and over half a million worked part-time (less than 30 hours) in the industry. This makes it a far larger sector than franchising, certainly when the part-time workers are included. And the high proportion of part-time participants (over 95%) makes this a sector that is both easy to get into and likely to appeal to many older workers.

However, take care. It may sometimes be in the interests of a scheme's promoter to have large numbers of self-employed agents recruited, to give them overlapping territories and then to adopt a sink-or-swim attitude - rather than taking the time to select and properly train the best candidates. So there are both opportunities and dangers in this easy-to-enter world.

The jargon used in this world is confusing, so you may need to consult the glossary in Appendix 5 at some points in this discussion.

Selling schemes can be categorised both by the method used to sell to customers, and also by their organisational structure - by how the sales people themselves are recruited and compensated.

Examples of common sales methods are party-plan selling, person-to-person appointments, door-to-door selling and telephone sales. Examples of organisational structures are network marketing and multi-level marketing

From the point of view of someone wanting to start a self-employed selling business, the organisational structure is very important. It is crucial to understand how recruitment and compensation works, and all their implications.

Easiest to understand is when all the self-employed agents are recruited directly by the main company, so they form essentially a single level. This is the organisational approach used by Avon and Tupperware. It is also common in the financial services sector.

Alternatively, they can be organised in multiple levels, with each agent encouraged to recruit others. This is known as multi-level marketing or network marketing (see Appendix 5, glossary). Kleeneze, Mary Kay Cosmetics and Cabouchon are examples of companies using this organisational approach.

There's an urgent need for new research and trustworthy, objective explanatory material in this whole area, since some of the trading schemes are very hard to understand and there have been abuses in the past.

Abuses can take the form of exaggerated earnings claims, pressure to buy too much stock or go on expensive training courses, or the over-rapid expansion of the sales network which can be detrimental to existing sellers or even lead to the failure of the whole business. We go into the legal and regulatory issues more in our full report.

7.3 Party-plan selling

Party-plan selling is a popular form of "direct-selling", where you go into business as a self-employed agent selling the products of another company. With party-plan selling, rather than arranging one-to-one personal appointments or going door-to-door, you demonstrate the products to a group of people, usually in the home of a customer who has agreed to act as the hostess for a small fee.

Most of the major brands using the party-plan method such as Tupperware, Ann Summers, Weekenders and Body Shop at Home target women customers. But the approach has also been used for selling to mixed audiences, for example books and gifts.

Party-plan businesses are very cheap to get into and likely to appeal because of their flexibility too. They appear to be something you can do on a part-time basis as and when you feel like it. This is something many older people are looking for.

But as with any off-the shelf business there may be pitfalls to watch out for too. For example, in many systems you don't get an exclusive territory, and even if you do there can still be problems from other sales agents encroaching on your customer base.

There may be poor support that you can only fix by paying to go on training courses at your own expense. And there could be unanticipated marketing costs in reaching additional customers after you've exhausted the obvious targets in your immediate personal network,

To form an accurate view of whether a particular party plan is a good option for you you really need an accurate idea of what has happened to other people in the system. What proportion starting in the businesses end up succeeding or failing - and why? But this is difficult information to gather. Those currently in the system most eager to talk to you may have a vested interest in signing you up. So cast your net as wide as possible and try and find your own independent informants.

7.4 Network marketing and multi-level marketing (MLM)

Both these similar organisational approaches are present in the UK, and actively recruiting all the moment. For example large numbers of postings are made to PRIME's web site forum from people promoting such network marketing and MLM business opportunities. Since we don't have the resources to investigate the claims made by these often complex and jargon-laden schemes, we always delete such postings.

A distinctive feature of both these organisational structures is that you are likely to be recruited into them by another self-employed sales agent or distributor (your "sponsor"), not the manufacturer or brand owner whose name is on the product. It is also rare to get an exclusive territory.

But if you go ahead and become a distributor yourself, you have two ways of making money. In addition to making commission on your own sales, you can also get commission on the sales of other people that you recruit as distributors. In a similar way, the person who recruited (or sponsored) you will make commission on your sales.

Because every salesperson in the structure has a financial incentive to recruit more salespeople, these networks can grow rapidly in a particular area. The worry with any business model that involves recruiting large numbers of self-employed sales agents without exclusive territory is that the market for the product or service will saturate.

Recruitment beyond that point implies intense competition between the agents as they chase essentially the same customers, or possibly direct exploitation of them as a revenue stream in their own right through starter kits, stock, training and so on.

7.5 Legal issues with multi-level commission schemes

In the UK this sector is regulated by statute, but the regulations may be out of date. The existing trading scheme regulations mainly seem to be concerned with preventing out-and-out pyramids, but even here they may be ineffective in stopping the more sophisticated modern variants.

A pyramid is a scheme where the main source of revenue is new recruits rather than the sale of the supposed core product or service. They are outlawed because they are likely to collapse, leaving late joiners out of pocket.

So to prevent them the law makes it an offence to pay a bonus for recruiting a new member, and makes it obligatory to include warning messages in promotional material for all trading schemes.

But it is permissible to reward recruitment indirectly with commission on the recruits' sales. This can amount to pretty much the same thing in terms of the sort of behaviour it encourages.

It is often difficult for people considering joining network marketing and multi-level marketing schemes to gather enough information to make an adequately-informed choice. How do you know the people you are talking to are representative of the typical participant's experience?

What you really want to know is where the money is coming from. Is most of it coming from legitimate customer sales, or is a big chunk coming from the contributions made by the distributors themselves in fees, stock, training and unpaid labour?

For that you need a complete picture of how many people join a particular trading scheme as distributors, how many drop out, and at what stage. Only then can you start to assess how the success of those who make money is related to the losses made by the failures.

So for potential participants the message has to be to scrutinize schemes of this type very carefully, and take good independent advice.

Earning beyond retirement

Part of the appeal of some of these schemes to older people is the hope of securing a continuing income after retirement - the idea is that the distributors you have recruited continue to sell, and you continue to get commission.

But there is a question mark over whether commission schemes that allow you to drop out of trading and keep earning are permitted, and if so in what circumstances. Part of the fault here may be with the law, which is not clear.

The DTI's Trading Schemes Guide, a ten-page summary aimed at explaining the basics to potential participants, is itself ambiguous on this point. "In a legitimate trading scheme, payments are essentially linked to genuine selling of goods and services to end users. It is illegal to base rewards for participants on the simple continued participation of other participants."

So it seems clear - you can't retire from a network marketing business and still make an income from sales commissions from the distributors you've recruited. However, the guide goes on "This regulation complements the offence relating to promising rewards based on recruitment. Rewards based on the sale of other participants are not illegal." So it's now unclear again.

If you are joining a trading scheme with the intention of retiring and later living off such commissions you may need to obtain a legal opinion on the exact arrangements before investing your money and effort.

7.6 eBay as a start-up business opportunity

The arrival of online trading platforms such as eBay has opened up new niches for small self-employed businesses in the UK. Large numbers of ordinary people are already involved, mostly on a part-time basis.

eBay is now easily the dominant online auction platform. But it is not sufficiently widely appreciated that eBay has gone beyond online auctions, which appeal mainly to those interested in high-value collectables and less valuable car-boot-sale type items. It has now gone on to become a general online market where fixed-price items can be traded too. This means it provides a structured trading environment potentially useful for many different types of small business.

According to the company, at least 10,000 people in the UK now rely on eBay to make a living (quoted in an article in the Sunday Times, 20 February 2005). PRIME has had several clients enquiring about eBay businesses, including one who is now successfully making a living trading in vintage cameras with the help of a PRIME loan.

An eBay business can have very low start-up costs - it depends on what you are trading in and how you source the items you sell. It also has some of the advantages of franchising in that you have the assistance of an established brand in finding customers.

It is also like business-format franchising in that many of the processes you require for operating your business are already in place - for example eBay provides you with established mechanisms for building an online presence, resolving disputes and collecting payments from your customers.

But so far the whole subject area has received little independent research attention in the UK. How many people really can turn eBay into a regular livelihood rather than just an occasionally lucrative hobby? It's hard to say yet.

Appendix A1

Guide to what's in the franchise agreement

A1.1 Key headings

The franchise agreement is a lengthy written contract that sets out the mutual obligations of the franchisor and franchisee in detail. It is usually for a fixed term of at least five years. When the term is up, the contract expires and must either be renewed or it automatically terminates.

While agreements differ, it will usually cover the following topics:

The name, trademarks, methods, patents and activities being franchised

Note that as well as defining what rights you are buying, the franchisor is also asserting that they have the rights themselves - for example that they own the trademarks in question.

The franchise territory, and how exclusive it is

This is a frequent cause of disputes, so the agreement should clarify whether the franchisor is offering you a protected area in which other franchisees won't be allowed to trade or not. Exclusivity may be specified in terms of a distance surrounding the franchisee's premises, or a set of exclusive postcodes, or lines on a map.

Fees, royalties and other financial matters

And how they are calculated and when due. There's a big difference between a royalty or service fee calculated on gross turnover and one calculated on profit. You may also be required to buy equipment or supplies off the franchisor or from suppliers they nominate. Any mark-ups on such purchases are effectively additional royalty fees and shouldn't be overlooked. And the advertising fund or levy can be a large additional item.

Specifications for premises and equipment

Again there can be major cost implications. If you're also leasing premises off the franchisor it is simplest if both lease and franchise run for the same period of time. If they don't you need to explore the implications, so you're not agreeing to things that could disrupt your business when the first runs out.

Performance targets

For example, sales quotas or the number of hours you must be open for business. You need to consider how much control this leaves you of your own work-life balance, and whether there's enough flexibility to accommodate care responsibilities or periods of ill health.

Pricing

The agreement may also give the franchisor the right to set prices, or those of some key goods. The question to ask here is whether this leaves you with enough control over the profitability of your business.

Control of standards

This is where the franchisor's inspection regime and adherence to the operating manual are covered. What happens if a dispute arises should be clearly specified.

Other obligations of the franchisee

For example participation in sales promotions or the training of new franchisees, and the financial reporting required.

Other obligations of the franchisor

For example the initial training you get and the level of ongoing support, the help with selecting and fitting out premises, the provision of promotional material (and who pays for it).

Rights of sale

This covers whether, when and to whom you can sell the business. The ability to exit the business easily and realise the value you have built up in it is an advantage frequently claimed for franchising. But whether you've actually got it depends on the franchising agreement and how the franchisor exercises the rights they are given in it.

If you can only sell to the franchisor then the agreement should specify how a fair price is determined. The franchisor will almost certainly have to approve anyone you'll want to sell to, as they'll become the new franchisee, so how have they exercised this right in the past? What about selling used equipment - is there a fair or guaranteed market for it? These are all crucial questions to satisfy yourself about at the outset.

Termination and renewal

This sets out the circumstances in which either party can end or extend the agreement. For the franchisee there may be penalties for terminating early, but you may need to do this for reasons of your own or a partner's ill health, or simply a desire to cash out and move on.

The main reason for franchisors wanting to terminate early is a breach of the agreement, for example failure to meet performance targets or trading in goods that are not part of the franchise.

It has been known for franchisors to go out of business themselves, so what happens in that eventuality should also be spelt out in the agreement.

A1.2 The importance of taking advice

While it's unlikely the franchisor will be keen to change their contract just for you if there are bits you don't like, it's still advisable to take legal advice before signing.

There may be implications in the wording that aren't clear to ordinary people, and that a lawyer familiar with franchising agreements will spot instantly. There's a list of solicitors affiliated to the British Franchise Association on the BFA site at www.british-franchise.org/members.asp?category=1

The lawyer's value here lies more in making sure you understand what you are signing up to than in negotiating the terms. Even if the franchise isn't particularly expensive you are essentially committing yourself to a particular job and perhaps even a daily routine for years to come. And if you're going to have an easy exit from the franchise when the time comes to sell up or retire, it's the small print that you agree to now that will bind you.

Franchisors ideally want every franchisee on exactly the same contract, but if there are good business reasons to make exceptions then it is likely that they will do so. Because franchisors do sometimes negotiate, despite what they say beforehand and what's on their behalf by organisations that primarily represent the interests of franchisors, not franchisees.

It is clearly in their interests to make you think any attempt to negotiate is futile, and to keep quiet about any departures from the norm. But there's a case study on the Businesslink web site of Stephen Halpin, a franchisee who won deferment of payment on the upfront licence fee and some other changes to a Boots Optician agreement - <http://snipurl.com/halpin>
See also the Ray Lowe case study in this Chapter 4 of this report.

The essential message is that you should take independent, professional legal advice at an early stage of negotiations with a franchisor. Ensure you fully understand the legal implication of any agreement or document BEFORE you sign.

Appendix A2

Guide to points to watch in franchising contracts

A2.1 Timely access to the operating manual

Numerous references to the operating manual are made in most franchise agreements. Indeed, compliance with the manual is usually insisted on, so in effect when you sign the agreement you are also signing up to what's in the manual. Yet you are unlikely to be given a copy of the manual before you've signed the agreement.

The reasoning behind this is that the manual contains an important part of the intellectual property you are buying from the franchisor - substantial and secret know-how about how to operate their business format. But the manual could also be used to unfairly impose conditions you would not knowingly agree to, so it is essential that you see it.

The usual way around this problem is for you to sign a confidentiality agreement. All this should say is that you won't disclose anything in the operating manual to unauthorised third parties. Having signed, you should then get to see the manual.

However, you may still not be allowed to look at the manual in much detail, or take it away with you or show it to your advisers. An added complication is that nowadays all or part of the operating manual may be in electronic format, for example taking the form of a password-protected area of a web site. Make sure that you get as much time as you need to check out the operating manual before making any irrevocable commitments.

On the plus side, the way the franchisor deals with you over this issue gives you a good insight into whether you'll be able to get along with them over a long relationship. Are they helpful, and perhaps even concerned about your business as well as their own? Or is there something unreasonably untrusting or even suspicious about their behaviour? It's useful to have an opportunity to assess this before you sign on the dotted line.

A2. 2 Use of the operating manual to make unilateral changes to the agreement

Since the operating manual is in practice part of the agreement between franchisor and franchisee, changes to it alter the agreement.

So what does the agreement you actually sign say about changes to the operating manual? Can the franchisor change it without notice or consent?

The answer to this question may well be yes. Since you probably can't alter it the next best thing is to find out how they used this right in the past. If they are changing the manual to spread best practice and take account of new products and new regulations it's one thing. But if it imposes new costs and unreasonable burdens on the franchisees that's another.

Try and find out about disputes with existing franchisees. This is another reason why it's so important to talk to them.

It's quite likely that the answers to some of these questions will be pretty off-putting. The franchise agreement is a basically one-sided document, setting out how the franchisor would like the world to work, and the means by which they impose their way of working on the franchisees.

So the other question you should be asking yourself before signing is whether all this loss of independence is worth it. Is the information contained in the manual good stuff? Is the franchisor's business format really going to help you get a good business of the ground?

Curiously many happy franchisees see a regularly-updated operations manual as a plus point. Since it's supposed to embody best practice within a particular industry, frequent updates could simply mean the franchisor is on the ball and eager to share new learning across the network.

Appendix A3

Top 10 other questions to ask about a franchise

- 1. Is the business seasonal?**
- 2. Who decides the pricing?**
- 3. Where are the nearest other franchisees located?**
- 4. Why have other franchisees failed?**
- 5. What does the start-up package include?**
- 6. What does the support actually consist of?**
- 7. What's the total initial investment required?**
- 8. How much goes on regular recurring fees?**
Don't forget bank interest if you need a loan to pay the franchise fees,
- 9. How soon before I'm likely to get an income from the business?**
- 10. What happens when I want to get out?**
At renewal time, before renewal - or even if I have second thoughts during training.

Appendix A4

Guide to useful resources and further reading

A4.1 Franchising organisations

British Franchise Association

The main UK franchising organisation, the BFA plays a key role in the self-regulation of the sector. It both represents franchisors and vets them - full BFA membership implies adherence to a code of conduct. Franchisor members are listed on the BFA web site by category - full, associate or provisional. Also listed are BFA-affiliated solicitors and other specialist advisers

www.british-franchise.org.uk

email: mailroom@british-franchise.org.uk

Post: Thames View, Newton Road, Henley-on-Thames, Oxon RG9 1HG

Tel: 01491 578050

The Franchise Alliance

All 10 franchise companies who make up The Franchise Alliance are also members of the BFA. So it's not a rival body, but a marketing initiative set up to promote franchising to people considering self-employment. The TFA runs regular free workshops around the country.

www.myfranchise.net

email: info@myfranchise.net

Tel: 0845 838 3070

Create

Funded by the European Union, Create's brief is to provide impartial information about franchising and other similar types of off-the-shelf business to people considering self-employment. It does this through workshops, training and on-line services, often delivered by partner organisations. It also funds research.

www.createproject.org.uk

email: create@exemplas.com

Tel: 01727 813747

American Franchisee Association

This US body has no direct UK equivalent, as it was formed to represent the interests of franchisees as distinct from franchisors. It claims 7,000 members owning 30,000 franchise outlets. Its website presents advice and guidance from a franchisee's perspective.

www.franchisee.org

A4.2 Bank franchising departments

Lloyds TSB

A free franchising information pack is available by calling 0800 056 0181.
Lloyd's Business guide to becoming a franchisee is at
<http://snipurl.com/LloydsTSB>

www.lloydstsbbusiness.com
email: franchising@lloydstsb.co.uk
Post: Franchise Unit, PO Box 112,
Canons House, Canons Way, Bristol BS99 7LB
Tel: 0117 943 3089

NatWest

NatWest's useful franchising checklist and other relevant material can be found at
<http://snipurl.com/NatWest>

www.natwest.com
email: franchise.retailbanking@natwest.com
Post: Franchise Section,
2 Waterhouse Square, 138-142 Holborn, London EC1N 2TH
Tel: 020 7427 8405

HSBC

www.ukbusiness.hsbc.com/hsbc/fran
email: franchiseunit@hsbc.com
Post: Franchise Unit, 24th Floor, 8 Canada Square, London E14 5HQ
Tel: 020 7992 1062

The Royal Bank of Scotland

www.rbs.co.uk/franchise
email: alan.smart@rbs.co.uk
Post: Franchise Department, PO Box 20000, The Younger Building, Drummond
House, 3 Redheughs Avenue, Edinburgh, EH12 9RB
Tel: 0800 521 607

Bank of Scotland

www.bankofscotlandbusiness.co.uk
email: franchising@bankofscotland.co.uk
Post: City of London Corporate Centre, 6th Floor, 155 Bishopsgate,
London EC2M 3YB
Tel: 0207 012 8199

Small Firms Loan Guarantee

This government scheme can sometimes help if you lack sufficient collateral security to obtain a bank loan to finance your business. In return for a 2% premium, the SFLG underwrites 75% of the loan, reducing the risk to the bank and therefore making them more likely to lend. Applications have to be via an approved lender - all the banks listed above qualify. A free booklet on the scheme is available from the phone number above or it can be downloaded from the web site at www.dti.gov.uk/sflg/pdfs/sflg_booklet.pdf.

www.dti.gov.uk/sflg

Tel: 0870 1502500 (publications order line)

Tel: 0845 001 0032/0033 (SFLG helpline)

A4.3 Books

Daily Express How to Choose a Franchise

by Iain Murray, published by Kogan Page, 2004, paperback £9.99.

ISBN: 074944195X

Daily Telegraph Guide to taking up a franchise

by Colin Barrow, Godfrey Golzen and Helen Kogan, published by Kogan Page, 2000, paperback £12.99. ISBN: 0749433108. Now out of print but may be available from libraries.

BFA Franchisee Information Pack

by the British Franchise Association, £29.

This contains much information that you can also find on the BFA's web site, but on paper - for example lists of BFA accredited members and various fact sheets. There's also a video, and recent issues of franchising magazines.

www.british-franchise.org/bookshop.asp

Tel: 01491 578050

How to Evaluate a Franchise

by Martin Mendelsohn, £5.50 to £12.95.

Though author is an acknowledged expert on franchise law, this is a simple introduction aimed at intending franchisees. Not currently available in general bookshops, but you can get it in various sponsored editions from the BFA bookshop, above, or Franchise World or Franchiseek, details below.

Lloyds TSB small business guide

by Sara Williams, published by Vitesse Media, 2003, paperback, £12.99. ISBN 0954081285. You may be able to get it free from Lloyds Bank.

Covers all aspects of setting up a business in a clear and thorough way, including a chapter on franchising.

A4.4 Magazines and web sites

Business Franchise

This monthly magazine is the official journal of the BFA. It has case studies, background articles and listings. The web site appears at first site to be little more than a franchise directory, but much other useful information is tucked away on other pages, including articles from industry experts.

www.businessfranchise.com or www.franinfo.co.uk
subs@circlepublishing.net
Tel: 0208 332 2459

Franchise World

Bi-monthly magazine established in 1978, giving it a claim to being the oldest UK franchising title. The web site has the usual franchisor listings, but also good background articles some of which adopt the franchisee's perspective and strike a sceptical note. Also publishes various books and guides.

www.franchiseworld.co.uk
email: info@franchiseworld.co.uk
Tel: 0208 605 2555

Franchise World Directory

Annual guide (£29.50) that lists 700 UK franchising systems and contains another 100 pages of articles and advice.

www.franchiseworld.co.uk/directoryhtml.html
Tel: 0208 605 2555

The Franchise Magazine

Published eight times a year by Franchise Development Services. Currently seems to be the thickest magazine. Content consists mainly of adverts and case studies.

www.franchise-group.com
email: enquiries@fdsltd.com
Tel: 0870 350 2337 (sales & subs)

UK Franchise Directory

Annual publication from the publishers of The Franchise Magazine. It claims to list all the franchise systems currently active in the UK, divided by industry sector. The associated web site contains a sub-set.

www.theukfranchisedirectory.net
020 8689 7115

Be The Boss UK

From the publishers of The Franchise Magazine. this web site takes the form of a permanent franchising exhibition. So the entries are written by the franchisors - but they often go into a lot of detail.

<http://uk.betheboss.com>

Making Money

A general small-business magazine that has much franchising coverage, especially on its associated web site. The advertising listings are sorted by price. Note that Making Money also covers other types of business opportunity such as direct selling and network marketing, not just business-format franchises.

www.makingmoney.co.uk/

Tel: 01778 392085

Daltons Weekly,

This advertising-only listings magazine and associated web site has a large franchising section. Includes advertisements for franchises abroad, and has a large resale section where franchisees can sell on their businesses. This publication includes business opportunities of all types, and has a prominent disclaimer of responsibility for what happens in any ensuing dealings.

www.daltonsbusiness.com

Tel: 020 8329 0196

Which Franchise.com

Large franchising web site with search feature that let you hunt by type of franchise, industry sector and cost. All featured franchises and advertisers are BFA members. It also has a section for established franchises for sale, and good Scottish coverage.

www.whichfranchise.com

enquiry@whichfranchise.com

Tel: 0141 429 5900

Franchiseseek

Large listings web site with some useful background articles by independent experts. Though UK-based, it has strong international coverage.

www.franchiseseek.com

Tel: 01590 689755 (books)

Select Your Franchise

Listings site with some independent editorial. The main distinctive feature is a form you fill in which purports to match you with suitable franchises.

www.selectyourfranchise.com/uk/

Franchise Direct UK and Ireland

The main feature of this advertising-based web site are the listings, which can be searched by category or investment band. There's little independent editorial.
www.franchisedirect.co.uk/

Franchisewire

Based in New Zealand, this site publishes franchising news from around the world, including the UK. The news is mainly press releases written by the franchise companies, but it still gives an impression of what's going on.
www.franchisewire.com

Newspapers

Newspapers with regular franchising coverage include the Daily Mail and The Mail on Sunday, Daily Express, Sunday Express and The Scotsman.

A4.5 Franchise Exhibitions

The British & International Franchise Exhibition, 23 to 24 March 2007, Olympia, London

The Franchise Exhibition, 11 to 12 May 2007, Odyssey, Belfast

The British Franchise Exhibition, 8 to 9 June 2007, SECC, Glasgow

The National Franchise Exhibition, 5 to 6 October 2007, NEC Birmingham

The Irish Franchise Exhibition, 23 to 24 November 2007, RDS Dublin

All exhibitors attending this series of events are accredited by the BFA, and are thus likely to lie at the better-quality end of the spectrum. You can book online at www.franinfo.co.uk/exhibitions.php or by phoning 0870 7771082 (ticket hotline)

A4.6 Franchise Seminars

These are evening, one-day or sometimes two-day events put on by the BFA, TFA (see page 55) or government-funded Regional Development agencies. They are free or low-cost (sub-£100). PRIME itself has run free ones in conjunction with the BFA, the Equal Create project and the East of England Development Agency.

There's a good listing at www.whichfranchise.com/seminars

For ones specifically aimed at the over 50s check www.primebusinessclub.com

A4.7 Government business support organisations

Business Link (England)

There is a network of organisations around the UK set up to give practical help and guidance to businesses, including those just starting out. Funded by government, their services are mostly free.

In England they are called Business Link. You can find your local one from the home page below. The section of the huge and informative web site devoted to franchising can be found at <http://snipurl.com/BLfranchise>

www.businesslink.gov.uk

email: via web site

0845 600 9006

Business Eye / Llygad Busnes (Wales)

The Welsh equivalent of Business Link.

www.llygadbusnes.org.uk or www.busesseye.org.uk

email: assistance@busesseye.org.uk

Tel: 08457 969798

Small Business Gateways (Scotland)

The Gateways are run by Scottish Enterprise in conjunction with local partners. They cover all of lowland Scotland.

www.scotent.co.uk

email: network.helpline@scotent.co.uk

Tel: 0845 607 8787 (general helpline - calls charged at local rate)

Tel: 0845 609 6611 (for nearest local Gateway)

Highlands and Islands Enterprise (Scotland)

Covers the rest of Scotland with a network of ten Local Enterprise Companies. These can be found via the central office in Inverness or the web site.

www.hie.co.uk

email: hie.general@hient.co.uk

Tel: 01463 234171

Invest Northern Ireland

Now the main government business development organisation in Northern Ireland, INI also operates via a network of local offices.

www.investni.com

Tel: 028 9023 9090

info@investni.com

A4.8 Non-government business support organisations

PRIME

The PRIME Initiative was set up by HRH 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. It's a sister organisation to the Prince's Trust, which deals with younger people. PRIME is a charity linked to Age Concern England, which gives it access to additional support and resources.

PRIME has a network of more than 120 partner organisations that offer free business advice, training and mentoring. In Wales PRIME-Cymru delivers a similar programme.

www.primeinitiative.org.uk

www.primebusinessclub.com

email: prime@ace.org.uk

Freephone 0800 783 1904

www.prime-cymru.co.uk

email: office@prime-cymru.co.uk

Tel: 0845 6018693:

Prowess

Prowess is an association of organisations that support women setting up in business. Prowess itself mainly does research and campaigning, but many of its partner organisations offer practical assistance. There is a clickable map to find business support and events in your area on the web site..

www.prowess.org.uk

email: admin@prowess.org.uk

Tel: 01603 762355

Blind Business Association Charitable Trust

BBACT supports registered blind and partially-sighted people across the UK who wish to become self-employed. It is a PRIME partner and member of Create.

www.bbact.org.uk

email: penny@bbact.org.uk

Tel: 0845 0450696

National Federation of Enterprise Agencies

The NFEA is the membership body for local Enterprise Agencies and other like-minded organisations in England. For example, PRIME is an NFEA member. It forms a network of independent, not-for-profit local agencies committed to responding to the needs of small and growing businesses. NFEA member's services are aimed particularly at pre-start, start-up and micro businesses.

www.nfea.com/index.htm?page=find_lea.htm

email: enquiries@nfea.com

Tel: 01234 831623

Everywoman

General support and networking site for women, which has a strong focus on female business owners. A member of the Create partnership, Everywoman sometimes runs franchising events and workshops.

www.everywoman.co.uk

email: info@everywoman.co.uk

Tel: 0870 746 1800

Community Action Network

CAN is pioneering the concept of replicating community businesses and social enterprises by a franchise-like process, allowing them to spring up rapidly in new areas. CAN is also exploring opportunities to make regular commercial franchises available to the social sector. CAN is also a Create partner.

www.can-online.org.uk

email: canhq@can-online.org.uk or o.jarvis@can-online.org.uk

Tel: 0845 456 2537 or 020 7785 6224

Direct Selling Association

The DSA exists to promote direct selling (doorstep selling, party-plan selling, network marketing and so on) and to improve standards. It is setting out on a similar path to the British Franchise Association, establishing a membership structure and then getting member companies to embrace increasingly professional codes of conduct. This voluntary, self-regulated approach has worked for the BFA. How effective it will prove in the world of direct selling remains to be seen.

www.dsa.org.uk

email: info@dsa.org.uk

Tel: 020 7497 1234

Appendix A5

Glossary - guide to Franchising Jargon

Franchising has its own language, and it is necessary to understand the key terms if you want to evaluate a business opportunity properly. We've also included some terms from related ways of doing business that you may come across when looking for a franchise.

Advertising fund or levy

A continuing payment to the franchisor that is meant to be used for advertising. It can be either a fixed amount or a percentage of gross sales. In the UK it's typically around four percent of sales.

Agent

Broadly, any individual who can act on behalf of another individual or company. More strictly, an individual who acts on behalf of another who can make legally-binding agreements for them. A sales agent is a particular type of agent who sells on behalf of another. An agent is not the same thing as a franchisee, which has a much more specific meaning.

Business-format franchising

A type of franchising where the franchisee does business using not just the names, trademarks and products of another company, but follows a business system developed by the franchisor that has detailed procedures for everything likely to arise. It's now the dominant form of franchising.

Direct selling

This originally meant "the distribution of goods and services direct from manufacturer to consumer, without intermediaries". In general business parlance it still does, so it's the sort of thing Direct Line Insurance or Dell Computer Corporation does. But in network marketing it's taken to mean "without wholesale or retail intermediaries". So the network marketing sales method, which often includes multiple levels of distributor between manufacturer and consumer, is somewhat misleadingly also described as direct selling.

Distributor

A person or company that holds a distributorship. In the looser usage of network marketing, it means a person who sells product.

Distributorship

A right granted by a manufacturer or wholesaler to sell a product to others. Not the same thing as a franchise, which is much more specific arrangement. Few distributorships are set up as franchises, although it is possible for them to be arranged this way.

Dispute Resolution

Many franchise agreements include provision for resolving disputes between franchisor and franchisee by arbitration or mediation, rather than resorting to the law courts.

Downline

In network marketing jargon, someone you recruit into the business. You are your downline's upline or sponsor.

Exclusivity

The exclusive territory in which a franchisee enjoys freedom from competition from other franchisees in the same franchise network. It needs to be adequately specified in the franchise agreement to have any force.

Franchise

A word with a confusing variety of meanings. It's perfectly correct to refer to the franchise agreement as the franchise. It can also be used to refer to a particular franchisee's business or operating unit, or as a verb for the act of setting up a franchise system. It's also used loosely for all sorts of other licensing arrangements and closed distribution networks that aren't considered franchises under EU law.

Franchise agreement or franchise contract

The contract that binds franchisor and franchisee.

Franchisee

The person or company that pays for the right to do business under the franchisor's name and system. They usually pay an initial franchise fee, then a royalty or service fee and other continuing charges earmarked for specific things such as advertising, rent or equipment.

Franchise fee

A one-off fee paid by the franchisee to the franchisor to buy into the system. The fee also helps pay for initial training and support - so a high fee ought to mean (though sometimes it doesn't) better training and support.

Franchise manual

A term sometimes used for the operating manual plus all the other bits and pieces of documentation supplied by the franchisor that set out how the business should operate.

Franchise system

The franchisor and full set of franchisees for a particular branded range of products or services - for example Costa coffee or Mr Clutch. To the outsider it looks like one big company.

Franchise unit

The business the franchisee operates.

Franchising

The method of distributing products or services that involves one or more independent businesses - or franchisees, doing business using a business name, trademarks and procedures granted to them by another company - the franchisor.

Franchisees are normally recruited directly by the franchisor, so there are only two levels - a crucial distinction between franchising and multi-level marketing.

Franchisor

The parent company that grants, usually for a fee and other charges, the right to use its trade name, trademarks and system of business operations.

Frontline

In network marketing jargon, someone you directly recruit and sponsor, so one of your key downlines.

Job franchise

A type of business-format franchising where most of the work is done personally by the franchisee, who rarely employs other staff. In some cases the franchisor supplies the sales leads.

Management franchise

A type of business-format franchising where the franchisee runs all aspects of the business, including generating sales leads. Employees usually do the detailed work under the franchisee's supervision.

Multi-level marketing (MLM)

A form of distributorship in which you receive commission on your own sales and on the sales of other people who you have recruited as distributors. This can go on for several levels. Some MLM arrangements may be judged pyramid schemes and therefore illegal. Some are legal, although they may still be risky to get involved with. Any business of this nature should be investigated closely and it's important to take advice from an independent trusted source. MLM schemes are not franchises.

Network marketing

A form of business in which you sell through a network of distributors (called your frontlines or downlines). Such businesses usually have a multi-level marketing structure, so you are likely to be recruited into them by another distributor (your upline or sponsor) not the manufacturer or brand owner. Any business of this nature should be investigated closely and it's important to take advice from an independent trusted source. Network marketing is not franchising, although terms such as mini-franchise or virtual franchising may be bandied about.

Non-compete clause

A clause in the franchise agreement that says the franchisee can't enter a similar line of business without prior approval from the franchisor. The clause may say it applies for a period of time that's longer than the term of the franchise agreement itself. Either way it may require clarification if you're planning an early exit.

Operating (or operations or operational) manual

The instruction book setting out how the franchisee's business should operate. It contains the latest practices, procedures and know-how developed by the franchisor, and is one of the main things the franchisee buys into. Compliance with the operating manual may be required as part of the franchising agreement.

Pyramid scheme

An illegal form of multi-level marketing in which people pay an entrance fee for the opportunity to recruit others to do the same. Chain letters are a primitive example. Any illegal scheme where the main source of revenue is new recruits rather than the sale of the supposed core product or service. They are outlawed because they are likely to collapse, leaving late joiners out of pocket. Joining a pyramid can be illegal, as joining soon involves you in illegal selling. Pyramid promoters may pass their schemes off as legal network or multi-level marketing businesses or as legitimate franchises - so beware.

Royalty or service fee

A continuing payment to the franchisor, usually based on a percentage of turnover and paid on a weekly or monthly basis. A fixed monthly fee is also quite common, particularly for businesses in the service sector.

Term

The length the franchise agreement runs, usually at least five and often seven years. After this there's usually an option to renew, subject to meeting various conditions and paying a renewal fee.

Trademark

Any sign that distinguishes the goods or services of one trader from those of others. So it can be a distinctive word, phrase, picture, colour combination, livery or product shape. Important trademarks should be registered as this prevents others from legally using the same or similar marks. Normally the franchisor has done this - but it's worth checking.

