

Money well spent



Sharon Bassett of A-Star Sports outlines the costs associated with buying a franchise

Franchise costs can vary significantly, depending on the type of business and industry in which it operates.

There are, however, some standard costs to consider when thinking through the buying and starting-up process.

These include:

- The franchise fee.
- Capital investment.
- Working capital.
- Professional services fees.

It is equally important to consider at the buying stage the ongoing costs of the franchise, such as:

- Management service fees.
- The marketing levy.
- Necessary purchases.
- Additional training.

And although it may be years away, initial financial planning must also take into account future franchise renewal and any resale fees.

Solid research around an intended franchise purchase, in-depth discussions with the franchisor and franchisees and a good franchise agreement should cover all of these issues.

Buying and starting up

The franchise fee is the initial upfront cost that is featured on most publicly accessible listings before any request for a prospectus or further discussion around a franchise information memorandum takes place. This fee typically includes the licence to operate under a specific trademarked brand, training and a start-up package with which to begin doing business as a franchisee.

Capital investment is usually the money spent on buildings and equipment to ensure the effectiveness of the business. This can vary immensely from one franchise to another. Capital

investment in fitting out a high street retail franchise, for example, will be significantly different to that of buying or leasing a vehicle and equipment for a mobile sports coaching business. Responsibilities around capital investment should be clearly outlined in initial discussions, usually after signing a confidentiality agreement to protect the franchise network.

Another important aspect to consider in the starting-up phase is working capital. This is basically the money required to keep the business going until it begins to make a return. The franchisor and its franchisees can significantly help in this forward planning by providing real examples of the business model in action.

Like so many other costs when buying a franchise, professional service fees can depend on the type of franchise. They can also be influenced by the

experience of the prospective franchisee. For example, A-Star Sports' franchisee Adrian Herring is a former accountant, so is able to take care of this side of things for himself. Common requirements in starting up, however, include independent legal and financial guidance.

Ongoing costs

Ongoing fees, often termed management service fees, are usually outlined in early discussions. Most commonly, this can take the form of a fee based on a percentage of sales or a fixed fee, which is a set amount each month paid to the franchisor. In rare cases, there are no fees, but this is usually where the franchisor makes money through the mark-up of goods.

The percentage fee is often perceived as a more positive approach in the eyes of franchisees, as the franchisor is seen as having a continued interest in and commitment to their growth and success.

In addition to the management service fee, franchisors frequently apply a marketing levy. This is an ongoing fee to cover network-wide marketing and promotional activities. The money is usually ring fenced for this activity only and cannot be used by the franchisor to cover other costs.

Necessary purchases are the goods required to run a franchise - which can only be purchased from the franchisor - such as particular services, saleable products, merchandise and branded clothing. Always note what these are in

relation to a particular franchise and ask about the franchisor's mark-up.

Finally in relation to ongoing costs, prospective franchisees need to be aware of any training costs incurred in taking on additional staff to grow their businesses.

Renewal and resale

Both renewals and resales should be outlined in the franchise agreement. Franchise agreements are normally for a fixed term, after which there is a renewal process. Where a renewal fee applies, this will be outlined in the agreement. Reselling normally incurs a stated fee to cover the cost of approving and training the new franchisee.

The franchise agreement

The franchise agreement should outline exactly what to expect from the investment made. Put simply, it is a document that outlines in legal terms how the franchisor/franchisee relationship works with respect to rights and obligations, most often within a given geographical territory or location; the provision of goods and services from the franchisor to the franchisee; financial terms; how long the initial agreement is for and what happens at renewal time; the sale of an established franchise; expected practice with relation to the trademark and brand; any future adaptations to the franchise system; and how to end an agreement.

Yes, I did say 'put simply'. This is why prospective franchisees should seek the help of a franchise lawyer to ensure expectations raised from their own research and discussions with the franchisor are represented clearly in the franchise agreement.

Buying into a better start

Not only should the costs be clear from the start, but research tells us that investing in a franchise gives business owners an increased chance of success compared to starting up independently. Outside of franchising, the small business failure rate is falling, but this was reported just 18 months ago as high as 20 per cent within the first year, with one in three failing within the first three years. Franchising is significantly different, in that four in five new franchises are profitable within two years.

On top of that, findings from the 2013 NatWest/British Franchise Association franchise survey show a total UK economic contribution of £13.7 billion, which is indicative of the power of franchising systems and their proven business formats.

This success stems from franchisors' commitment to business sustainability, as well as supportive franchise networks that keep customers in high regard. With this in mind, prospective franchisees should look not only to buy into a better start, but to receive positive support and mentoring at every stage in the lifecycle of their businesses. [WF](#)



Working capital is the money required to keep a business going until it makes a return