



GUIDE TO FRANCHISING

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WHY A FRANCHISE?

A Franchisor finds franchising beneficial because a blueprinted franchising system can be copied by others to the mutual advantage of the franchisee and the franchisor.

Franchising has grown in New Zealand with 80% of franchised business becoming operational in the 90's. Statistics prove a substantially higher proportion of franchised businesses survive in comparison to non-franchised business.

The Franchisee buys an established business which is designed to reduce commercial risk because the business is run to a proven operational business plan. This plan is put in writing in a Franchise agreement and an operations manual.

Both parties benefit from supplying and using a ready made business with an established brand name. A pre-tried business plan with complete marketing/technical/production resources and education available from the Franchisor is a valuable resource.

A comprehensive franchise has advantages over distribution and licensing agreements.

Sources of franchises are found in a magazine issued quarterly called "Franchise New Zealand" and its associated website www.franchise.co.nz.

ADVANTAGES TO THE FRANCHISEE

A Franchisee can obtain favourable business returns and satisfaction by "*leasing*" the Franchisor's business and business know how.

The blueprint enables customers from each franchise outlet to receive the same product or service. The same franchise operating in varying "*territories*" promotes the Franchisor's advertising of the brand. Savings on the purchase of equipment and stock are made because of bulk usage.

The chances of a Franchise surviving in the business community is enhanced because:

- The business is ready made
- Plant, equipment and stock can be better sourced for better bargain
- Less mistakes are made as to venue because of the Franchisor's prior experiences and advice
- The training of a Franchisee is an on-going support not available to completely new businesses.
- On-going support is not limited to the Franchisor but the cumulative knowledge of other Franchisees can assist the Franchise nationally or internationally.
- Most Franchisees are attracted by the prospect of economic gain as well as securing a good business and personal growth.
- Franchisees come from varying walks of life but they all need to ask the following questions before entering the world of franchising.

YOUR PROPOSED FRANCHISE

- How long has the franchise been operating?
- Have questions been asked of other Franchisees and how many territories have been franchised?
- What services does the Franchisor offer and how well is the overall franchise managed?
- Has the Franchisor offered you any references?
- Is the Franchisor a member of the Franchise Association of New Zealand and bound to its Code of Ethics?
- How much has the Franchisor invested into the Franchise and have you seen balance sheets and trading figures of the Franchisor to determine profitability?
- How many franchises have failed? And why did they?
- Have you looked at other systems?
- What experience has the Franchisor had at recruiting Franchisees?

The business investigation

- Are you obliged to purchase a minimum amount of goods from the Franchisor?
- Are minimum turnover figures stated in the Franchise Agreement?
- What are the required opening hours?
- What legal paperwork has been supplied to you and have you taken good advice on its content?
- How well defined is your exclusive territory?
- If you sell the business what are your obligations and rights?
- What is the term of the Franchise Agreement and what are the total payments you are obliged to pay as part of the Agreement?

Financial considerations

- What is the all up cost of the Franchise including royalties advertising, equipment costs etc.
- Is working capital provided in your business plan?
- What profitability can you rely upon? Have you seen actual figures of existing franchises to confirm the figures?
- Are you obligated to buy plant, and will you own any of the equipment upon repayment?
- Did the Franchisor operate a test business prior to franchising and was it fully tested?

The mechanics

- Who will train you and have you met the actual trainers?
- How good is the initial training and on-going training and who will perform it?
- Will you receive all the Franchisor's *know how* and Manuals and at what stage in the process?
- What help will you have with marketing and what is supplied in that regard?
- What obligations do you have to attend annual franchisees meetings and other training sessions?
- What trouble shooter is around and with what skills to help you if you do not meet the necessary cash flows?

Favourable factors considered by Franchisees

- Franchising is attractive to many people looking for new self employment because the Head Office responsibility is largely taken away.
- The Franchisor is in a win/win situation with you if the franchise is well balanced because your success equates to their success.
- If the Franchise is well thought out, management monitoring and financial control should be built into the systems you adopt for your business.
- Franchisees are attracted to the economy of scale benefits which come from multiple franchises.
- Franchising often does away with high development costs and learning to manage problems.
- By seeking advice from the Franchisor you can draw professional advice from a number of areas which the Franchisor has necessarily had to develop to franchise the business. Most franchisors have had two years trial before the franchise has been taken to the market and this should have straightened out a lot of the problems in the interim.
- Those Franchisors taking their franchise to the market should consider taking expert advice to assemble all the elements in a package which will attract good quality franchisees. This necessarily involves trialling a good business system supported by excellent documentation from experienced franchise advisors. This advice should unify the system with the creation of manuals, e-commerce assistance, customer related marketing and internet marketing assistance. Key elements are contained in the preliminary agreement to franchise and the franchise agreement. The terms of these documents are usually non negotiable because the Franchisor cannot afford to have varying agreements for different territories.
- All agreements should clearly describe the business and include trademarks and patents, restricting the franchisees from operating competing businesses.
- The length of the term and renewals should be clearly defined. Franchises can range in duration. Some are for five to ten years, some for twenty years.
- All payments should be clearly defined including renewal charges, training obligations and fees payable on transfer or assignment.
- The Franchisor's right to refuse assignments or to repurchase the business should be researched.
- What cooling off period do you have either in the Heads of Agreement to Franchise or the Franchise Agreement proper?
- What is the exact area for the exclusive territory?

RESPONSIBILITIES OF THE FRANCHISOR

The responsibilities and obligations of the franchisor are described in the Franchise Agreement and sometimes in the Operations Manual.

They usually include:

- Assistance in the selection of the site and negotiation of the head lease.
- Assistance in the fitting out of the outlet.
- Provision of a confidential Operations Manual identifying the key features of the business.
- Advice and guidance with the employment of staff.
- Advice and guidance regarding necessary registrations and licences to be obtained in relation to the franchise.
- Guidance on initial and on-going stock requirements.
- The continued sourcing of new stock and product ideas.
- Control of the advertising fund.
- The organisation of franchisee meetings.
- The provision of advice, guidance and assistance in relation to the general operation of the franchise.
- The maintenance of intellectual property rights.
- The negotiation of national purchase arrangements.

RESPONSIBILITIES OF THE FRANCHISEE

- To pay all creditors on time.
- To permit the franchisor to inspect the premises or business and conduct an audit in accordance with the Agreement.
- Not to withhold payments in the event of a dispute.
- To maintain specified insurance policies which may be required.
- To ensure that there is no infringement of the trademarks, names, logos or designs of the franchisor.
- To undertake renewal training as required by the franchisor.
- To adopt any modification required by the franchisor as changed in the confidential Operations Manual.
- To provide service and sell products in a manner laid down in the Operations Manual.
- Not to commit the franchisor or contract with others using the franchise name. Each outlet whilst trading under the franchise name should have a separate legal trading entity.
- To achieve minimum performance levels.
- Not to sell or assign the franchise without the approval of the franchisor and without first having offered it to the franchisor.
- Not to change any partnership arrangements, corporate structures or other ownership matters without the approval of the franchisor and then only in accordance with the Franchise Agreement.

COMMON REASONS FOR FRANCHISE FAILURE

- The franchisor wants to greater franchise fee
- The franchisor double dips in that he asks for too greater fee and too greater share of the profit by way of royalty.
- The franchise is based on corner cutting and that it has been developed with inadequate systems.
- There has been poor judgment exercised by the franchisee and franchisor in relation to the site of the business.
- The franchisee is undercapitalised
- All parties have underestimated the support needed to prop up the business.

YOUR 'HOW TO' OPERATIONS MANUAL

The purpose of the Franchisor's Operations Manual is to provide a comprehensive written guide for the franchise owner about how to operate the business.

The first time a franchise owner has access to the manual is usually during the training programme. The training programme should be based around the Operations Manual.

The manual aims to decrease reliance on Head Office personnel after initial training and should be the first point of reference for any queries and problems.

The manual should be well written, well indexed, kept up to date and easy to manage.

GUIDELINES FOR DEVELOPING THE MANUAL

The manual should be written in plain English, using short sentences. It should be informative, logical, orderly and easy to use via headings.

If the manual is very large it should include a detailed Table of Contents and an index to help the franchisee quickly find information when solving a problem.

An average manual can take from 50 to 200 hours to write. Procedures must be written from an objective standpoint. If a person is too familiar with any procedure they may miss obvious steps.

If possible, the manual should be typeset. This makes it easier to manage, easier to read and is more authoritative than type printed and photocopied ones. This also adds to the professional image of the franchise. A good word processing package and a laser printer can produce an adequate quality product if constant changes are being made to the manual.

Do not mix more than two typefaces and four sizes, twelve pitch is the normal size, in the layout. Any smaller than ten pitch is too difficult to read.

Keep a copy of the confidential Operations Manual on a CD so that it is easy and cost effective to make changes to the manual.

Use a loose leaf format so that manuals can be updated on a regular basis without a large printing cost.

The initial manual should be produced with a line at the bottom of the page or top showing the date of printing, the company's name and copyright. Updated pages or section can then contain the date the revision was issued to the franchise owners.

The manual should be written, field tested and then re-written.

Where appropriate, each section should include samples of forms to be used.

FRANCHISE MANUALS

You will often find in franchise manuals the following content:

- Introduction
- Use of this Manual
- Logo, Design and Use
- Marketing, Promotion and Merchandising
 - Advertising Philosophy
 - The Art of Selling
 - The Process of Selling
 - Local Advertising/Marketing
 - Co-operative Advertising
 - The Marketing Fund
 - Competitors
 - Pricing Policies
- Customer Relations
- Personnel and Staff Management
 - Management Style
 - Staff Selection and Conditions
 - Training Staff
- The Franchise Operation
 - Appearance
 - Daily Opening and Closing Requirements (ie. step by step daily tasks)
 - Weekly, Fortnightly and Monthly Requirements ie. tasks that have to be done at these intervals)
 - Staff Appearance (eg. Uniforms)
 - Hours of Business
 - Preliminaries for Opening (new stores only)

- Design and Layout of Premises
 - Compulsory
 - Optional
- Repairs and Maintenance, Housekeeping
 - Insurance Policies
 - Security and Theft
 - Pricing Policies
 - Cash Control and Banking Procedures
 - Store ambience (eg. music)
 - Mail Order
 - Lay-bys
- Stock and Supply
 - Authorised Products
 - Major Suppliers
 - Suppliers
 - Stock Control
- Administration and Accounting
- Computer/POS System
- Reporting and Payments
 - Daily Reports (eg. sales summaries)
 - Weekly Reports
 - Monthly Reports
 - Half-yearly and Annual Reports
 - Audits
 - Administration Fees
 - Advertising Fee
- Legal
 - Leases
 - Business Taxes
 - Use of Professionals
 - Regulations to be followed, Certificates, Licences required
- Directories
 - Suppliers
 - Maintenance Contractors
 - Other Stores
 - Franchisor Head Office

SUCCEEDING WITH YOUR FRANCHISE

Most Franchisors have prepared franchise brochures, marketing information, Heads of Agreement to Franchise, Franchise Agreements, Manuals. Supporting documents such as Employment Contracts, Contracting Agreements, and other useful documentation can be made available to potential franchisees. With the information available to you, you should go further and make direct enquiries of other users of the system and alternative service providers to ascertain the viability of the business.

THE IDEAL FRANCHISEE

- The ideal Franchisee for a successful franchise would have:
- A burning desire to be self employed
- Leadership and management skills
- Ability through prior experience to work within a structured environment
- Sales and communication skills
- Networks within the territory which they can call on
- Energy, drive and an ability to contribute to the group
- Some real interest in the product and service
- Family support
- Accumulated financial backing to avoid being undercapitalised.
- Good health
- A customer centric focus to their life and a “*can will do*” approach to business. These energies, together with people skills, a willingness to work, support of families and financial resources are the key to a successful Franchisee. Some tolerance from the Franchisee is also needed because they are unable to do work their own way because of the blueprint requirements.

RAISING FINANCE

Any institution looking to fund a franchise will be looking for clear answers to the following questions:

- Will you run the business?
- Are you joining a good franchise?
- How good is your franchisor?
- How do your cash-flows stack up against what you need to borrow?
- How will the business perform in relation to existing businesses using the same systems?
- Have you the personal skills to run the business you wish to purchase?
- Have you approached professional advisors well experienced in franchising?

ADVICE ON FRANCHISING

Ross Fanthorpe, a Partner in Govett Quilliam has specialised in all aspects of franchising. His business clients have been assisted by his interest in marketing, particularly direct marketing, customer related marketing, cause related marketing and all the power of the internet and e-commerce. Ross has prepared websites for his clients to assist with their franchise business.

Ross has been involved in the creation/review of hundreds of franchising / licensing / distribution / buying group systems and this experience is of value to his clients

HOW WE CAN HELP YOU

Govett Quilliam is Taranaki's largest law firm. We have the people, the experience and the resources to assist you, whatever your case may be.

We have prepared this guide as a guideline to franchising. If you require further information, or have any questions about this guide please contact us.

Our specialist with experience in franchising is:



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Please call our office if you would like further information on any guides prepared by our firm. Copies are also available on our website.

- *Asset Protection and Residential Care Subsidies*
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