

Principal

Stewart Lloyd Germann
B.Com, LLB, FCIS, CFInstD, Notary Public

Ground Floor, Princes Court
2 Princes Street, PO Box 1542
Auckland, New Zealand

Telephone 0-9-308 9925
Facsimile 0-9-308 9922
Email stewart@germann.co.nz
Web www.germann.co.nz

In Evaluating a Move Into Franchising:

CONSIDER IF THE BUSINESS:

- Is profitable
- Is well capitalised
- Has management strength/experience
- Is easily taught to others
- Has good training expertise/resources
- Has unique features
- Will have an edge on competition
- Has an effective, catchy name
- Has firm intellectual property rights
- Has a solid, widening market
- Is capable of network support

AND QUESTION YOURSELF:

- Do you understand how franchising works?
- Have you compared the pros and cons of franchising with other ways of expansion?
- Are there resources available for a feasibility study and pilot operation?
- Is there adequate recruitment and selection experience?
- Is there awareness of the kind of questions franchisees may ask?
- Is the price for the franchise realistic?
- Are you willing to be patient about payback?

ADVANTAGES OF FRANCHISING YOUR BUSINESS - FINANCIAL

- Expansion capital injected by franchisee
- Economies of scale in network purchasing
- Improved cash flow from franchise
- Fees/royalties
- More R & D resources
- Spread of risk
- Less risk of management fraud
- Less recruitment, selection and training costs
- Less localised stock control costs
- Less personal management/IR costs
- Reduced operating costs
- Reduced distribution costs
- Reduced production costs
- Reduced advertising costs due to pooling
- High rate of return on outlets (low investment)
- Potential buyback of successful franchises

OPERATIONAL ADVANTAGES:

- Faster network expansion
- Better distribution facilities
- Easier to focus on changing market needs
- Higher branch motivation level
- Better training and manuals
- Better quality control
- More consistent standards/products
- Ability to exploit new ideas more quickly
- Rapid growth reduces competition effects
- More effective head office expertise
- More R&D emphasis
- Improved local sales effectiveness
- Longer hours worked in branches
- Greater economy-consciousness in branches
- Secured outlets for production
- Quicker service or deliveries
- Greater loyalty from franchisees
- More cost-effective labour force
- No unsociable hours/overtime/holiday problems
- More line management stability
- More efficient use of management resources
- Relatively small head office needed
- Greater local knowledge and contacts
- Better service for customers

DISADVANTAGES OF FRANCHISING YOUR BUSINESS

- Less central disciplinary control
- Difficult to remove unsatisfactory franchisees
- Successful franchisees may resent paying royalties
- More consultation needed in decision-making
- Franchisee owns the outlet
- Pressure for change from franchisees
- More disclosure of confidential information needed
- Capital needed for pilot
- Resources needed to recruit, train and support network
- Possible empire-building by franchisees
- Potential skilled competitors should they break away
- Broader risk of spoilt reputation through misfits
- Limits on corporate expansion in franchised areas
- Smaller corporate profit margin per outlet