

# Hamilton Pratt Article

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## What is Franchising?



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Franchising turnover in the UK in 2010 was £12.4 billion. In addition to that, over 521,000 jobs were attributable to franchising and there were over 890 different business format franchising systems available. Such figures prove that franchising is a great method for expanding businesses, but what is franchising?

A franchise must have the following elements: a brand name, a franchisor who has control over and provides support to its franchisees and an obligation for the franchisee to pay fees periodically to the franchisor.

### **Business Format Franchising**

The most popular type of franchising is business format franchising, the format which is used by brands such as McDonalds and Subway. Using this method of franchising involves the franchisor granting licences to franchisees to allow them to trade as their own business under the brand of the franchisor following a proven business model.

Franchisees pay an initial fee for which the franchisor will provide a package which includes all of the elements necessary for the franchisee to establish and run a business with continued support from the franchisor. Although the franchisee is responsible for running his or her own business, the franchisor retains overall control over the quality and standards of the goods and services provided and over the way in which those products and services are sold and marketed.

Franchisees are required to pay on-going fees to the franchisor, which are usually expressed to be a percentage of the turnover of the franchisee. In return for payment of these fees, franchisors are obliged to provide on-going support services to their franchisees, for example training, marketing promotions and product development.

### **Product and Trade Name Franchising**

The second and much less common type of franchising is product and trade name franchising. This format is most frequently used in the automotive, petroleum and soft drink industries. Product and trade name franchising does not normally involve payment by the franchisee of on-going fees. Instead, franchisees purchase product from the franchisor or their nominated supplier for onward sale. The franchisor may assist its franchisees in obtaining accounts or locations for sale (depending on the type of business and product), providing national advertising campaigns and, of course, trade marks and a brand.

A growing number of product and trade name franchises are being converted to business format franchises due to the clear advantages of the latter format.

### **Benefits of Franchising**

According to the British Franchise Association (BFA), 4 in 5 franchisees believe that being part of a franchise has given them a competitive advantage in the last year when compared with similar businesses which are not franchised.

One of the most important aspects of franchising is the existence of an established brand. Taking advantage of this brand name and reputation means that the lead time for franchisees to establish a successful and profitable business may be reduced.

Although clearly no business can be entirely recession-proof, it is apparent that franchise businesses have weathered the storm much better than other businesses which are not franchised. In fact, according to the NatWest BFA Franchise Survey (2011), the number of franchised units in the UK has continued to rise year on year throughout the recession.

Unlike in other parts of the world, for example in the USA where franchising is heavily regulated, franchising in the UK is not formally regulated, rather it is self-regulated. The BFA requires all of its members to comply with the European Code of Ethics for Franchising but this comparative lack of regulation means that franchising is a relatively "hassle-free" way of both expanding an existing business and for starting up your own small business.

In addition, franchisors may have increased purchasing power and may also be able to reduce overheads which will increase the profitability of franchisees compared with non-franchised businesses of a similar size.

Whilst it is clear that there are a lot of benefits to franchising, it is important to bear in mind that they are no substitute for the hard work and dedication that are required in order to establish and maintain a successful franchise system.

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