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OVERVIEW

When doing good is great for business

Socially responsible franchising is a growing trend which can benefit business and the community

ALISON COLEMAN

With more than 900 brands, including some of the best-known names on the high street, and a £15.1-billion contribution to the UK economy, franchising is a sector of prosperity. Those who have invested in a franchised business are likely to agree; among franchisee-owned businesses 97 per cent are profitable, according to the British Franchise Association (bfa).

Underpinning its success – the industry has grown by 10 per cent in the last four years – is the proven, replicable business model on which the fundamental principle of good franchising is based. But one trend that could become influential in shaping the sector's future is a growing focus on socially responsible franchising.

Whether it is supporting the local community, championing good causes or donating profits to charity, social responsibility is now part and parcel of the core business strategy of many franchises, at both corporate and local level.

Major global brands, such as McDonald's and Subway, have committed to responsible sourcing of suppliers, environmental initiatives to reduce carbon emissions and packaging, and sustainability of their operations. At a local level, by engaging with social responsibility initiatives, McDonald's franchisees have effectively become brand ambassadors within their local communities by supporting young people through sponsoring grassroots football and helping the environment by organising local litter pick-ups.

Other franchisors are now recognising the benefits of putting social responsibility at the heart of their business operations and promoting it at a local level. "Nowadays, prospective franchisees are looking for more than just money and the ability to help something bigger than just their business is always attractive," says Carl Reader, non-executive director at the bfa and author of *The Franchising Handbook*.

"A key element of franchising is that the franchisee is part of a national business, but locally owned and managed. Charities such as Buttle UK can actually track donations, which provides location accountability, so a franchisee in Nottingham can be sure that every pound raised is passed on to children in Nottingham, rather than lost in a national pot of money."



McDonald's Europe

Responsible franchising could become crucial to recruiting franchisee talent, especially among the highly sought-after millennial generation. Research has shown that millennials are interested in business ownership, active in their community outside work and view changing the world for the better as a serious goal. Franchisors hoping to attract this next generation of franchise owners will need more than just a strong business concept with sound financial prospects.

One important factor in franchisee recruitment is finding people who fit the franchise culture. As Steve Bolton, founder and executive chairman of property franchise business Platinum Property Partners, points out, a franchise with social responsibility at its core will attract like-minded franchisees.

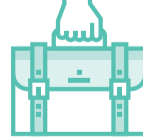
His company has supported many charitable causes in the last ten years, donating money to local charities every month, and the network's 500 franchise owners, or partners, are keen to do the same.

"They are encouraged to take part in charitable activities that are close to their own hearts, as well as that of the business, for example running marathons, volunteering, even half beard shaving and wearing for a week," says Mr Bolton. "We want people who want to help each other, their local community and causes that are close to their heart. Our culture of caring and giving back is a major attraction for our partners. It also puts off others who may consider it for self-serving reasons alone. And that's fine because those types of people have no place in our business."



621k

people are employed in franchising in the UK, a 70 per cent increase over the past ten years



321k

are in full-time employment



80%

of franchise brands in this country are UK-owned and developed

Franchisor Freddie St George, owner of magazine franchise Raring2Go!, which has 53 franchisees, has a long history of supporting good causes through business. He organises the Italian Job Mini Car Rally, which has raised millions for children's charities.

"We have selected two charities nationally which Raring2go! supports, but we also encourage franchisees to choose local causes to support," he says. "There is a massive sense of community between our franchisees and their local audiences. The information in Raring2go! is of real local interest and aimed squarely at the family audience. Given the sense of trust we have established across our UK territories, a natural by-product is that our franchisees have become real brand ambassadors."

Like a growing number of franchisors, Mr St George feels strongly about social responsibility as a core business value. He says: "It is as much part of our approach to doing business as offering exceptional customer service. I believe that businesses that operate in this space and embrace social responsibility will end up attracting brilliant candidates who will want to be part of the organisation and enjoy being involved in such initiatives."

Social responsibility in franchising creates a win-win situation; greater brand awareness for the franchise and greater exposure for the local community cause or charity they support. It also creates a positive opinion of the franchise in the eyes of customers.

However, as Dr Felicity Hardley, senior lecturer in marketing and business strategy at Westminster Business School, explains, it is important that the right social issues are focused on and any activities are consistent with the overall brand image.

"There is often a risk that short-term performance pressures can dominate decisions when it comes to social-value creation," she says. "As active and socially responsible community members, franchisees need to see these activities as a long-term investment and strategy, otherwise piecemeal efforts may be seen as inauthentic and just a 'marketing ploy' rather than something genuine."

"This is not to just improve competitiveness, but to attract talented employees and deliver more value to customers who care about society and the environment. If franchise businesses can make a lasting impact on local customers, those customers can offer long-term loyalty and this is something all businesses should aspire to." ●



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MICRO-FRANCHISING

Helping the world's po

Who would have thought that franchises could hold the key to stimulating local economies?

SHARON THIRUCHELVAM

Nearly three billion people live on \$2.50 a day. Excluded from the larger economy and lacking access to organised finance, education, and basic goods and services, in the language of socio-economics they sit at the "bottom of the pyramid".

For them, work means a miscellany of micro-enterprises in informal sectors. Street trading, odd jobs, selling vegetables grown on a shared plot, minding children - the tasks vary, but they are united by a lack of coherence and security, an absence of training and advancement, and legal protection in the event of malpractice.

Given that nearly half the world's population are captured by poverty, charity is not a feasible long-term option for all. The task falls to social enterprises, impact investors and enlightened governments to work together to overcome the infrastructure challenges, costs and organisational hurdles that make reaching these people and breaking the poverty cycle so difficult.

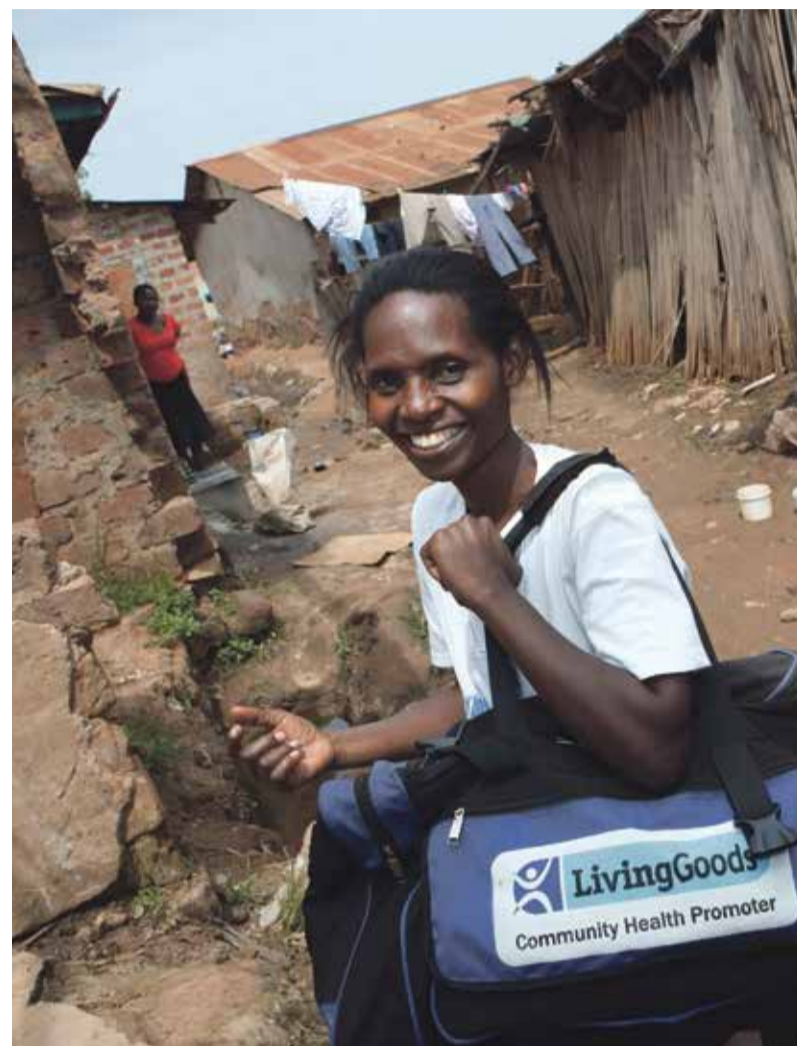
For visionary businesses leaders, the prize is not just social transformation, but a tantalising return on investment with some estimates putting bottom of the pyramid consumers' demand at \$5 trillion in purchasing power parity.

Tried and tested, the franchise model is ideal training for poor and unskilled would-be entrepreneurs in hard-to-reach communities. As a shortcut to self-employment, in its most enterprising forms it can provide a business school education on the cheap.

Self-starters can become business owners without the risks associated with entrepreneurship, such as securing funding, distribution and brand recognition. Following proven marketing and operational concepts, the franchisee can replicate a proven model, while receiving support and targets from central office.

For social enterprises, the appeal of the franchise model is its unbeatable potential to scale, achieving the broadest possible impact in fundamental areas such as health, sanitation, education and energy.

As Ella Gudwin, president of VisionSpring, puts it: "You can take the practices associated with franchis-



02

ing, learnt in the land of Dunkin' Donuts and McDonald's, and apply them globally against a social problem." The solution is win-win. Jobs are created, businesses are driven by local demand and community members sell to each other, thereby spurring economic development.

"In the simplest sense, micro-franchises are 'businesses in a box' which can be taken on by low-income individuals," says Joe Kallarackal, director of the International Centre for Social Franchising. "As a lot of the supporting systems have been tested and packaged up, the franchisee doesn't need to have a lot of specific skills to take it on."

The Clothing Bank social franchise in South Africa, together with its sister franchise Grow With, supports mothers of young children to

find full employment, gain self-confidence and give their children the best start in life.

According to the franchises' data, 68 per cent of women in South Africa with children under the age of two don't live with a partner and just 50 per cent of fathers provide financial support, so the burden of parenting falls overwhelmingly on women. In response, the Clothing Bank provides business mentoring and life coaching to mothers who left school early and are stuck in the unemployment rut.

With supervision over a two-year period, the women learn how to run a retail franchise, and leave equipped with the contacts and know-how to set up and sustain their own small business. Once earning, they can enrol their children at a

or climb out of poverty



Living Goods

VisionSpring



03

“That is too big a problem to solve with charity.”

Following a low-margin, high-volume model, the company has sold 3.7 million glasses and reached customers in 43 markets, and to serve customers who are parting with discretionary income, VisionSpring recognise that a value proposition must be at the core of their business – that is “radically affordable, durable and stylish eyeglasses”.

Living Goods, meanwhile, is a community health franchise that is reducing child mortality by using the “Avon Lady” model. Based primarily in Uganda, Kenya and Myanmar, Living Goods trains carefully selected “community health promoters” to provide “business in a bag” healthcare for infants, as well as nutrition, family planning and HIV support.



The franchise model is ideal training for poor and unskilled would-be entrepreneurs in hard-to-reach communities

Working alongside non-governmental development organisation BRAC, Living Goods has reduced child mortality by 27 per cent. And further still, its competitive presence in communities is achieving a halo effect with the prevalence of counterfeit medicines down by 50 per cent and the price of medicine falling 17 per cent.

Key to Living Goods’ success is its use of technology. The company equips its community health promoters with an Android phone that they partially pay for and is loaded with the Medic Mobile app, which facilitates high-quality clinical diagnoses and treatment.

The community health promot-

er guides their client through a list of questions prompted by the app, thereby multiplying their potential to address a range of health issues. The app is then used to set up automatic SMS alerts to clients after consultation, dispensing timely advice, such as when to take their medicine and when to schedule their next check-up.

Cumulatively, this data has enormous potential for national public health programmes, which will be Living Goods’ next and most ambitious step. With the government’s support, the company hopes to roll out a version of their current model, becoming Kenya’s primary community healthcare programme.

For Galen Welsch, chief executive and co-founder of the East African water purification franchise Jibu, putting local people in the driving seat was one of the most appealing aspects of the franchise model. When founding the company in 2012, he drew upon important principles: “That market-based solutions offer the most sustainable development models. And I wanted a solution that required eye-to-eye partnership, wasn’t patronising to beneficiaries and met infrastructural needs without having to rely on donations,” he says.

Jibu uses a pure franchise model to finance and train young people to run their own clean water franchise networks. Mr Welsch noticed that in the developing world, half of water projects fail within two years, primarily because of a lack of ownership and incentives on the ground.

He sought to address the systemic roots of the problem by allowing entrepreneurs to start their own decentralised water treatment plants. These mitigate the need for piped drinking water, just as mobile phone networks erased the need for landlines. In just five years, the company has more than 200 units, 50 of which are fully fledged franchises with a full water treatment plant, and 150 branded micro-franchises that buy wholesale from existing franchisees and redistribute water. ●

01 Living Goods franchisees provide essential health services, education and treatments to their neighbours in hard-to-reach areas

02 Jibu uses a pure franchise model to finance and train young people to run their own clean water franchise networks

03 VisionSpring’s Vision Entrepreneurs are trained to conduct eye screenings and prescribe glasses to improve access to eyewear in remote rural areas

franchised Grow With centre that provide high-quality, competitively priced nursery education, which is not state funded in South Africa and so badly lacking in parts of the country.

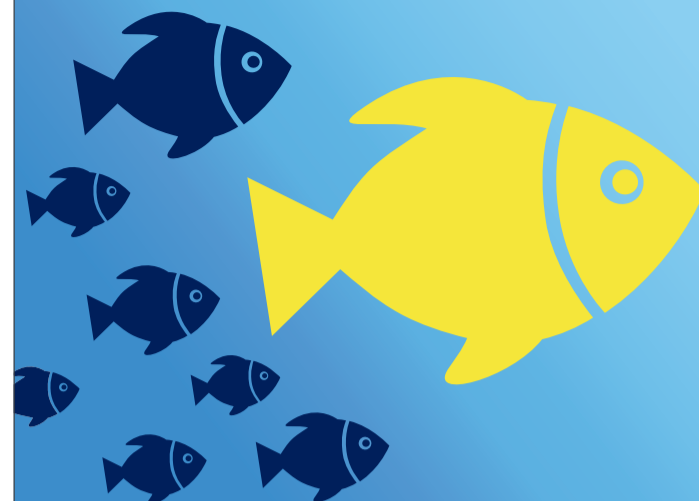
Women are at the very heart of most health social franchises. At VisionSpring they make up 92 per cent of the organisation’s “vision entrepreneurs” in India, Bangladesh, Rwanda, Kenya and Nigeria. With just an eighth-grade education, they can be trained to conduct simple eye screenings through door-to-door visits, prescribe reading glasses and refer customers to specialists.

The status conferred on franchisees, as facilitators and knowledge brokers, and the pride they feel from being relied upon by their neighbours to help solve a real problem, gives these women an invaluable social-capital and power base.

VisionSpring aims to seed the glasses market among customers earning an average \$4 a day, by helping them buy their first pair. The majority of their customers are schoolchildren, who need glasses before sight problems affect their school retention, and 35 to 55 year olds, who are at risk of dropping out of the labour market, at the prime of their working life, due to presbyopia, the gradual and inevitable failing of vision due to ageing.

For VisionSpring, sales are essential. “There are 2.5 billion people in the world who need glasses and don’t have them,” says Ms Gudwin.

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COMMERCIAL FEATURE

Banking on franchises

When it comes to business growth, there are few sectors that have performed as consistently well as franchising

Over the last ten years, franchising's contribution to the UK economy has risen by 43 per cent, while the number of people it employs has soared by 70 per cent. The proven business model has enabled leading brands, such as Domino's, Starbucks and KFC, to expand at a phenomenal rate and is the model of choice for growing numbers of overseas brands expanding into the UK market.

As it moves into the digital age, franchising faces fresh challenges, but looks set for a prosperous future.

According to HSBC franchise director Martin Francis: "UK franchising is a very active market and franchisors are working hard to maintain their position. New brands are constantly entering the UK market so the competition is that much greater."

"There is still an interest in something different and novel in a crowded marketplace; if it is attractive,

people will go for it. Established franchises cannot afford to be complacent and need to focus on developing their unique selling point or USP."

Some of the biggest players in the fast food franchise sector, such as McDonald's and KFC, have been leading the way, enhancing their offering, not just in terms of the look of their restaurants, but on the customer engagement side. In the age of the consumer, exceptional customer experience holds the key to competitive advantage.

"Many of these franchisors are adopting digital technology to improve customer interaction with their brand beyond their restaurants," says Mr Francis. "They know that their customers can choose to dine out or order food to eat at home. By developing mobile apps and teaming up with delivery service providers, such as Just Eat and Deliveroo, they ensure that customers can still enjoy their products wherever they choose."

Managing costs is a perennial problem for all businesses, including franchise owners. Labour costs are rising, and with recruitment of quality staff already challenging, those costs could be set to increase after Brexit when staff may be harder to find.

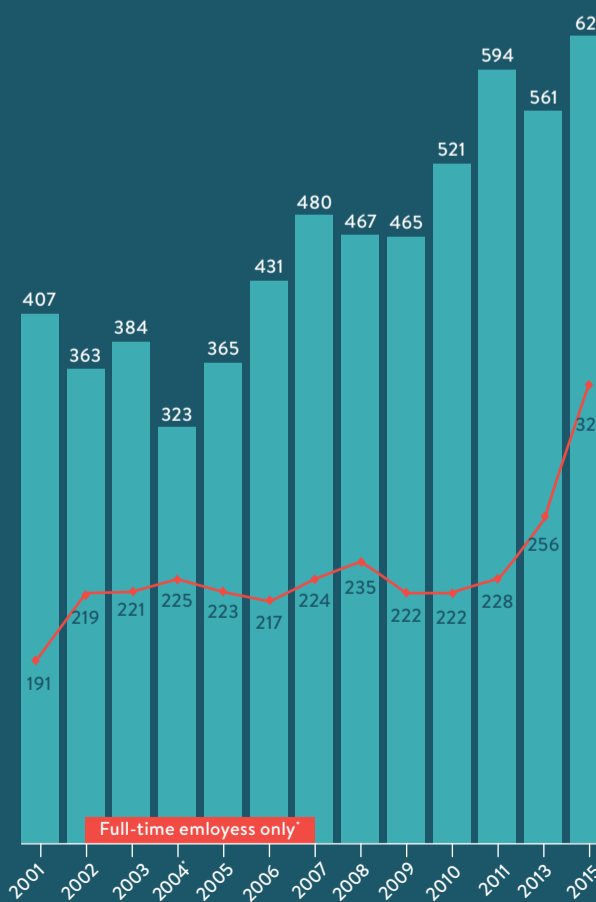
"Some locations' rents and rates are being affected by cost increases, and there has been some impact on cost of sales because of the exchange rate," says Mr Francis. "Part of the role of franchisor is to help franchisees grow their business and manage those costs effectively through their greater buying power. This gives them an advantage over independent business owners."

One notable trend in franchising that has also helped with cost management is consolidation. "This has been happening in the last few years in the UK, where franchisees, particularly within some of the larger systems, are building a portfolio of franchise



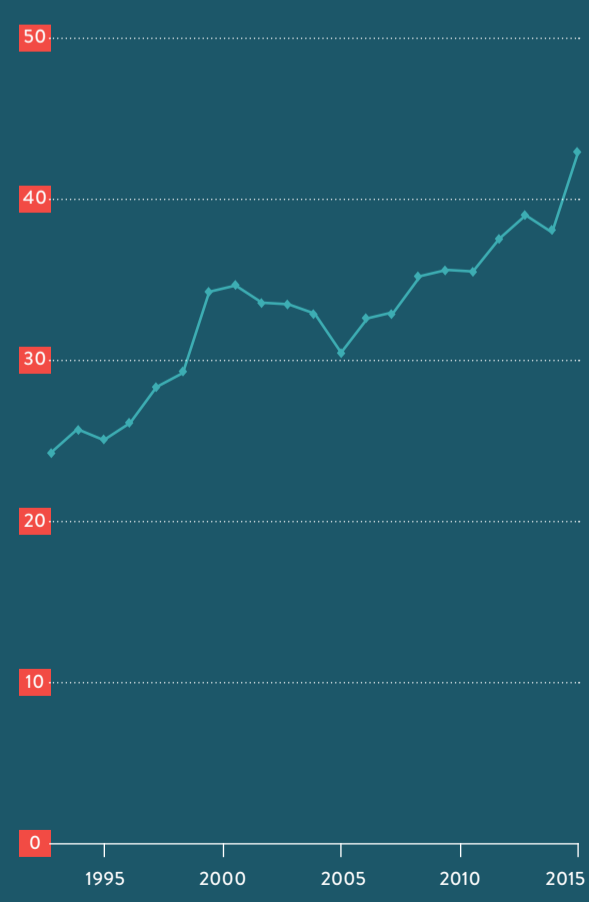
EMPLOYMENT IN FRANCHISING

Total number employed in UK franchising (000s)



FRANCHISEE BUSINESSES

Number of franchised units (000s)



- 

44.2k
franchised units now operating in the UK
- 

£15.1BN
estimated turnover of the franchise sector
- 

91%
of franchisees rate their relationship with their franchisors as satisfactory
- 

901
active franchise systems

COMMERCIAL FEATURE

brands and making the best possible use of their territory. They can leverage their head-office costs and their knowledge of the local environment, properties and staff, and boost cost management efficiencies," adds Mr Francis. "At HSBC, we've seen demand for events where growing franchisors are able to present to such franchisees."

All the while they face competition from overseas brands, largely from the food and beverage sectors, that are starting to roll out their own franchise networks in the UK.

Mr Francis says: "These include Amorino, which makes Italian artisanal gelato, Turkish bakery café Simit Sarayi and German Doner Kebab. These brands are bringing new ideas and creating competition, so incumbent brands must think very carefully about their USP."

Adding to the competitive mix are concepts originating in the UK that have used franchising to grow overseas and are now developing it to add to their UK network of corporate outlets. This is a route taken by Wafflemeister, whose outlets offer Belgian waffles, gelato and shakes, and milkshake and juice bar ShakeTastic, both of which have franchise networks in the Middle East.

Food and beverages is one of the biggest and fastest-growing sectors within franchising, but hot on its heels are domiciliary care, and children's education and extracurricular activities, such as Tutor Doctor, Stagecoach and Little Cherubs.

“UK franchising is a very active market and franchisors are working hard to maintain their position

"Franchises are recognised as being among the top quality providers in the domiciliary care sector," says Mr Francis. "Among the top ten care providers identified by the Care Quality Commission you find that six or seven of them are franchises. There is such a huge demand for those services and here the franchise model has worked extremely well."

The franchising industry continues to offer opportunity, support

“ There are challenges for existing franchise operators as they see new entrants coming in, adopting digital technology and using it to gain a competitive advantage

and choice. Those looking to invest in a franchise can still choose from the low-cost entry level brands in sectors such as pet care and personal services, up to the high-end investment opportunities offered by the major global brands. As an industry, it is moving with the times.

Mr Francis says: "There are challenges for existing franchise operators as they see new entrants coming in, adopting digital technology and using it to gain a competitive advantage. They know they can't afford to rest on their laurels, and it is encouraging to see how they are evolving and adapting their strategies. They are highly entrepreneurial, very aware of what is happening in the marketplace and driving through the necessary changes that will enable them to continue to grow and meet constantly changing customer demand."

"Importantly they are supporting their franchisees as they embrace change. This includes building strong banking relationships, which for us at HSBC have been a key element in financing the capital spend needed."

"Adapting to change is a challenge that all businesses face right now and the pace of change shows no sign of slowing. Given all the benefits of a proven franchise model that has stood the test of time, the strength of the networks, the wealth of investment opportunities, and the ready access to financial and legal expertise and support, the franchising industry is in excellent shape. There is no reason to think that it won't continue its remarkable growth trajectory regardless of what the future brings."

For more information please visit www.business.hsbc.uk/franchising



UK franchise expansion: Water Babies

HSBC has worked with a number of UK franchise brands that have gone on to internationalise their offering as a result of the success they've had in the domestic market. One of them is children's swimming school Water Babies. Launched in 2002, it teaches around 45,000 children in almost 600 pools through 56 UK franchises.

Founder Paul Thompson says: "We started the Water Babies around a family kitchen table in Ilkley. We were inspired by how much we loved taking our own children to learn to swim. We realised how beneficial it can be to learn to swim at a very young age, so we built on those benefits, slowly growing our business and watching as other people caught the excitement of Water Babies."

Their first overseas move was to Ireland, launching in Dublin in 2009. It went on to become the franchise's fastest-growing territory, attracting 1,000 clients within its first year. Since then Water Babies has expanded into the Netherlands, Canada, New Zealand and China, with plans to open in Germany next year.

"Before making steps overseas we took advice from the British Franchise Association and UKTI, and continue to consult closely," says Mr Thompson. "It's about being confident in your model and your programme. We are proud of being the largest swim school in the world, but it's not just about numbers. We insist on ensuring we have the best premium offering, the best teachers, the best pools and the best programme."

Alongside its ambitious expansion plans, Water Babies has developed additional revenue streams through the sale of related products, such as bath toys, towels and swimwear, and stunning underwater photography of their customers' little swimmers.

"We are constantly looking to innovate and improve," says Mr Thompson. "In China, we have built our own Water Babies Centres, a model we will roll out across the rest of our territories. Our sister company WaterBumps, which teaches aquanatal classes to prepare mums for childbirth and beyond, ran successfully in Bristol and will now be extended to selected areas in the UK and overseas."

Growth in international franchising

Franchising has long been the method of choice for brands looking to expand globally. The business model has universal appeal providing opportunities for those looking to run their own business.

Global markets find the model appealing because of its contribution to economic output. According to a study by the World Franchise Council, approximately two million franchised businesses sustain more than 19 million jobs around the world. On average, franchising contributes 2.7 per cent to national GDPs. The report also highlights the scale of cross-border expansion, citing that an adjusted average of 28 per cent of franchised concepts in a given country were foreign based.

In the UK, the numbers of overseas brands moving into the market and domestic brands expanding into foreign markets have been steadily growing.

Tony Massey, UK deputy head of franchising at HSBC, says: "The UK has always been an attractive market for overseas brands, even more so as the world becomes smaller. Increasingly people in the UK are quite familiar with many of these brands that weren't previously in the country because they've seen them when they've been on their travels."

A good example of this is Canadian coffee company Tim Hortons, which opened its first UK shop in Glasgow in May. The brand, which is owned by

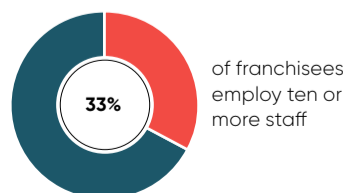
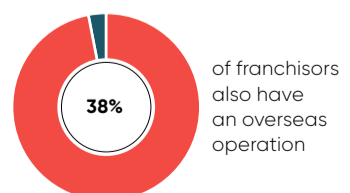
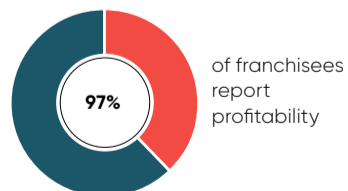
Restaurant Brands International (RBI), dominates its domestic market and has become an integral part of Canadian culture.

Mr Massey says: "When the Glasgow shop opened – we had actually put the present UK master franchisee in touch with RBI – people came from all over the country to the launch. They already knew the brand from when they were on holiday in Canada or from friends and family members they have there, and that is increasingly the case with other foreign brands setting up in the UK."

Plans for a UK chain of Tim Hortons are in the pipeline, creating competition for the likes of Costa Coffee and Starbucks.

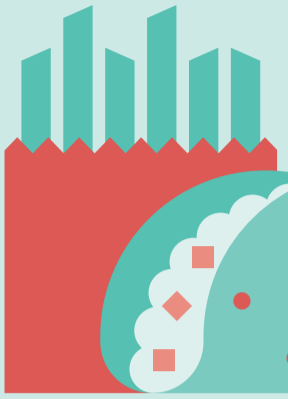
In a sign of heightened franchising activity in overseas markets, HSBC has appointed new heads of franchising in the United States, Canada, Mexico and France.

Mr Massey adds: "We see franchising growing in all these different countries, and HSBC is well placed to work with domestic and international brands, provide support and share experience to help drive cross-border expansion of franchises both inward and outward."



FRIES AND FRANCHISING

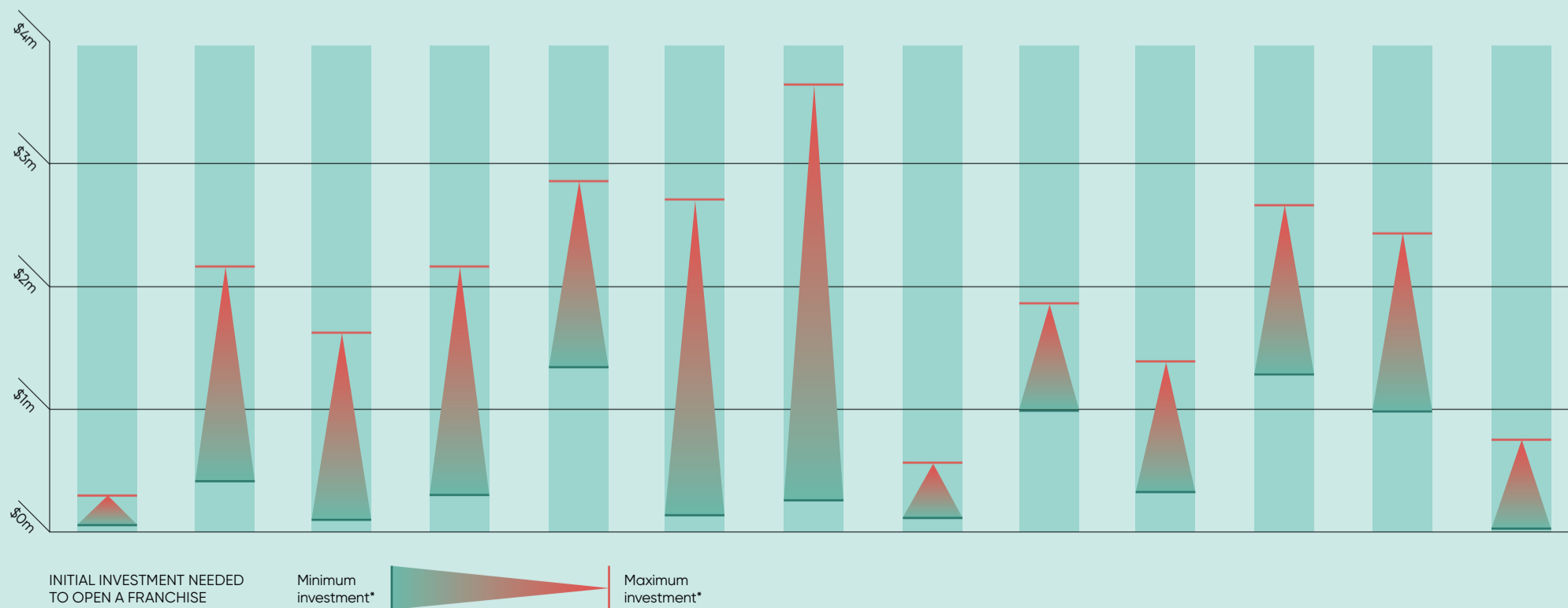
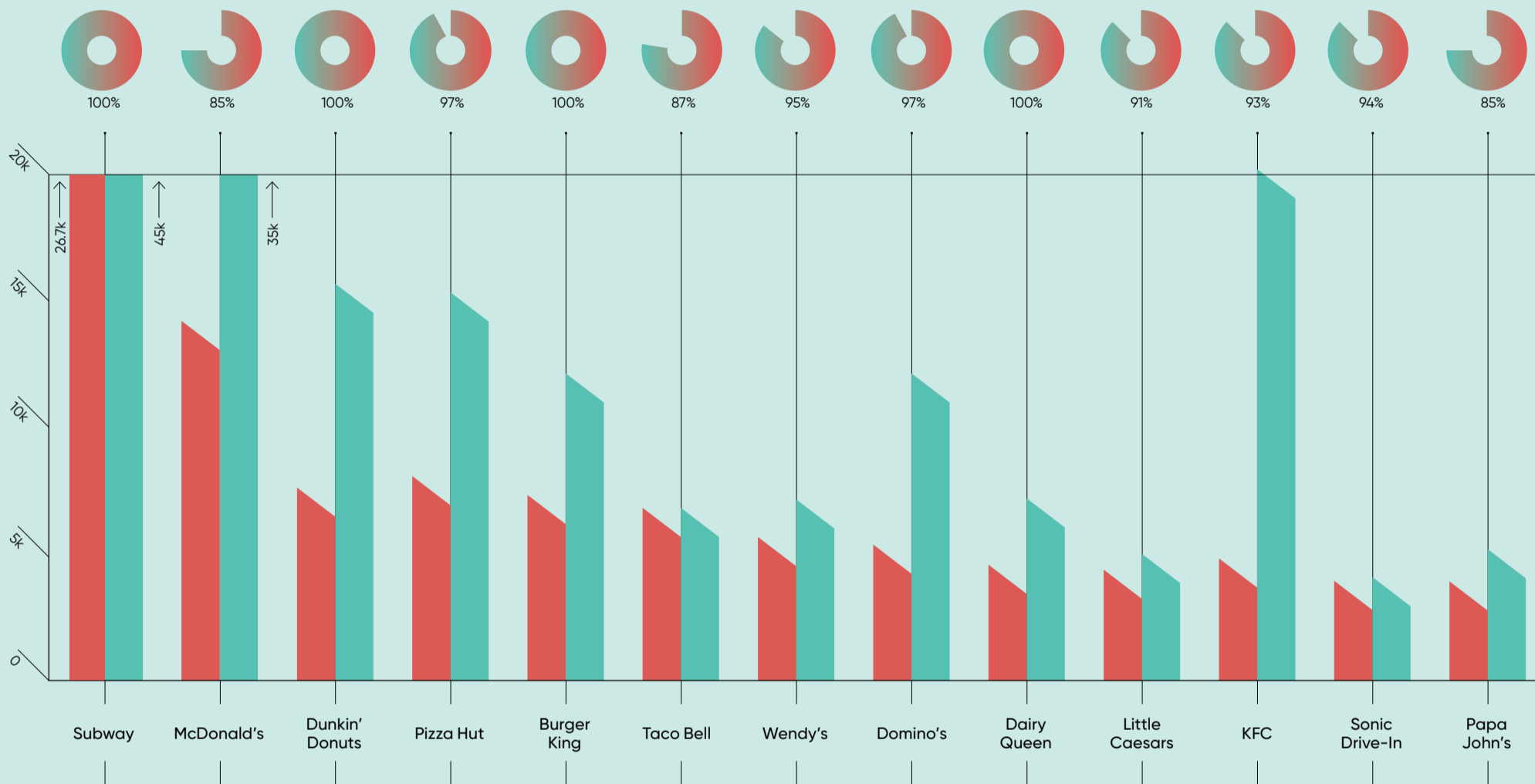
From burger chains to ice cream kiosks, food franchises are big business in the United States, accounting for three of every ten franchises and nearly 60 per cent of all franchised employment. This infographic ranks the largest chains across the country and associated startup costs for franchisees



BIGGEST RESTAURANT FRANCHISES IN THE UNITED STATES

Ranked by number of units

● US units ● Global units ● Per cent of operations franchised

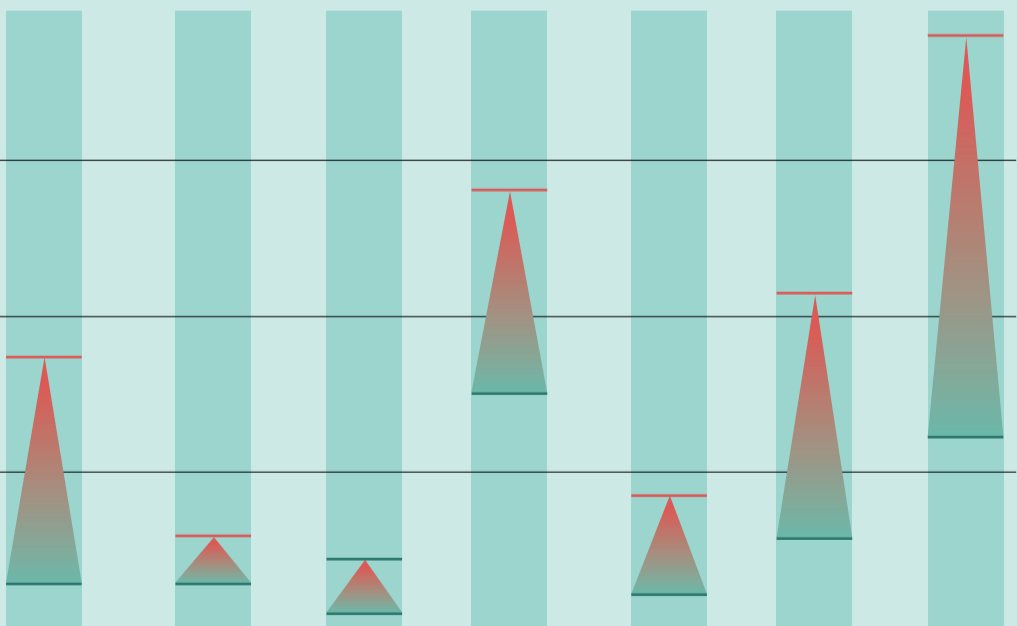
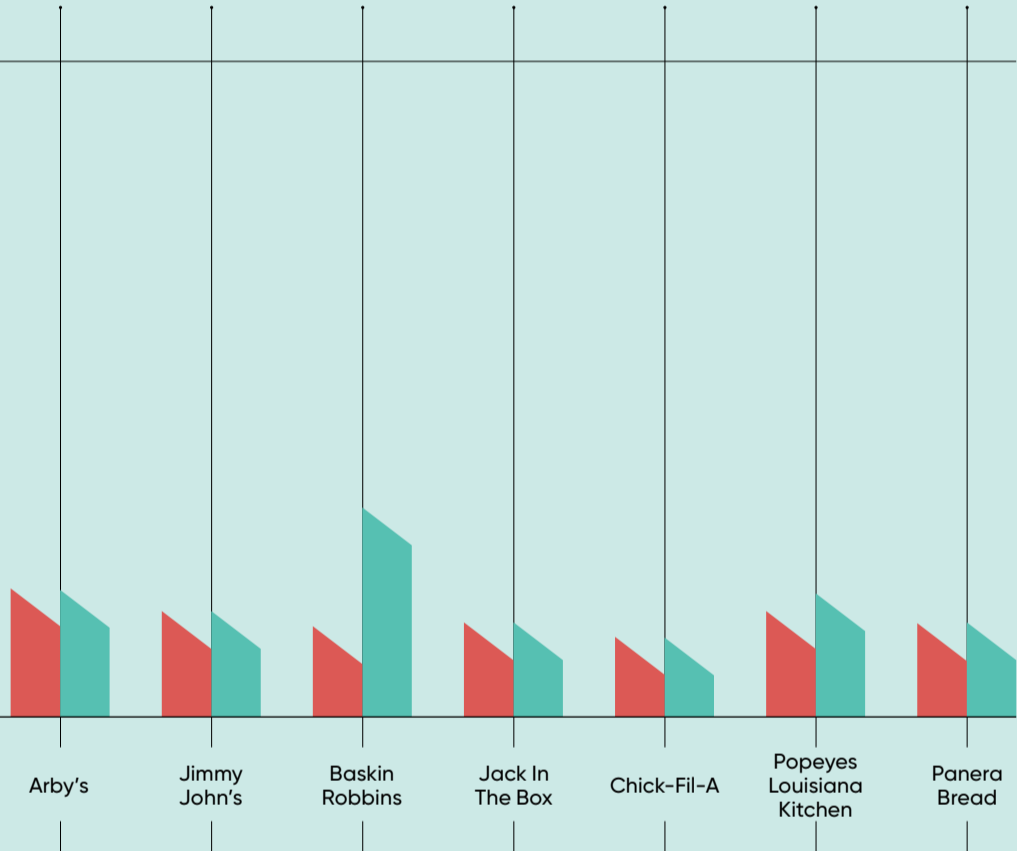
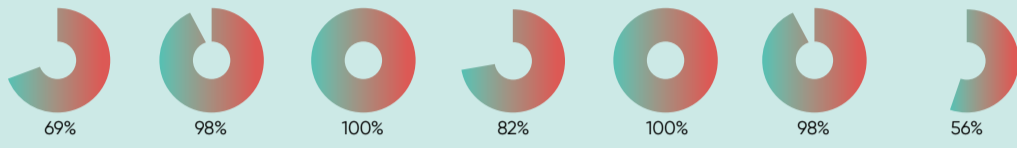
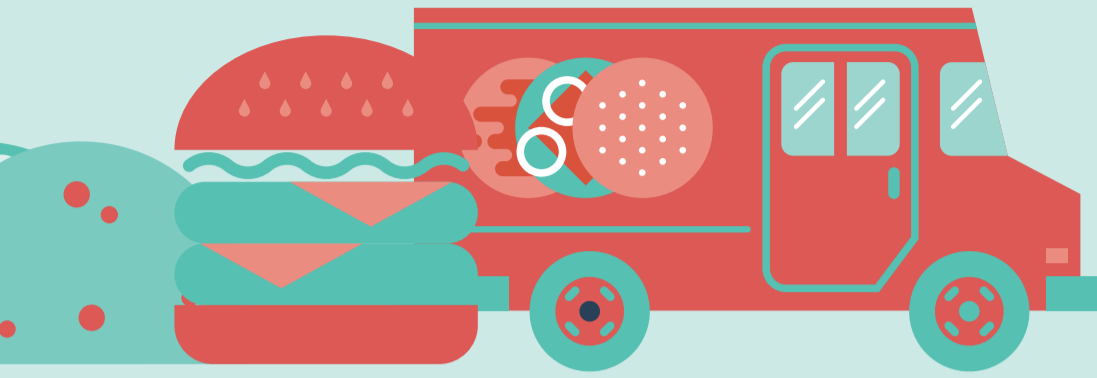


INITIAL INVESTMENT NEEDED TO OPEN A FRANCHISE

Minimum investment*

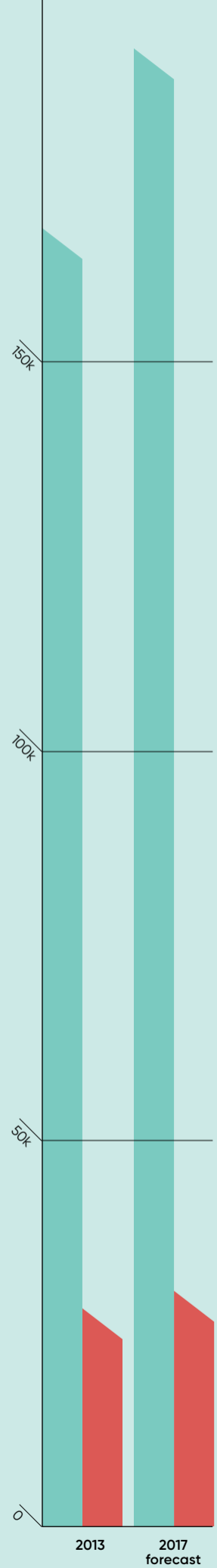
Maximum investment*

*Investment costs are for a range of franchise options, from small kiosks to full-scale restaurants; some estimates self-reported by franchises exclude real estate costs

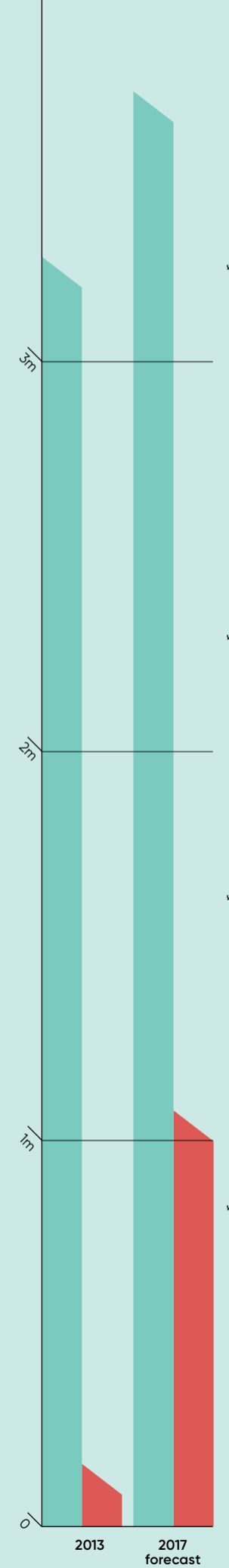


● Fast Food ● Table service

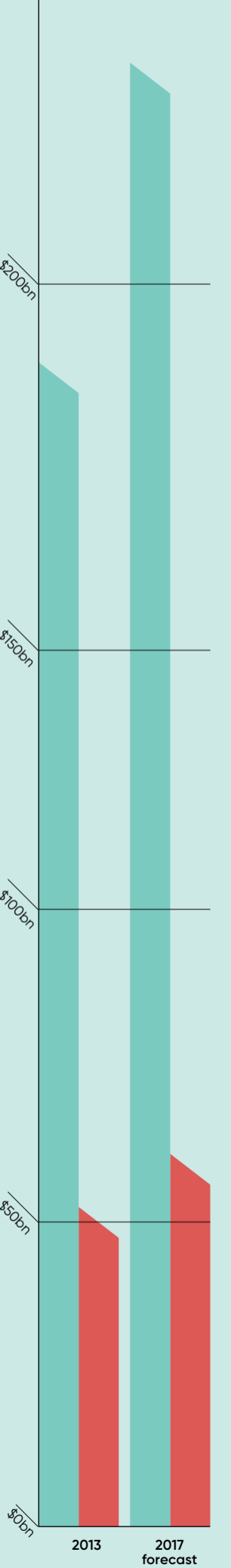
NUMBER OF US RESTAURANT FRANCHISE UNITS



NUMBER OF EMPLOYEES OF US RESTAURANT FRANCHISES



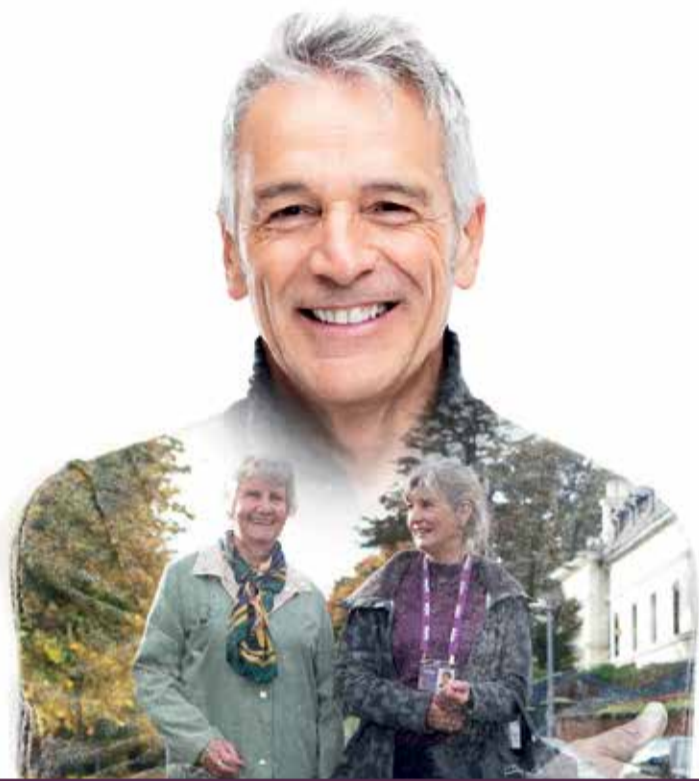
OUTPUT OF US RESTAURANT FRANCHISES



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STARTUP COSTS

Counting the cost of buying a franchise

Franchises provide a ready-made business model and support, but there are upfront costs, which can vary greatly

FINBARR TOESLAND

McDONALD'S

As one of the world's biggest fast-food chains, McDonald's can afford to be extremely selective when choosing franchisees. The company expects all potential franchisees to undertake at least nine months of unpaid full-time training, as well as provide a refundable £5,000 security deposit and non-refundable training costs of £750. But the major startup costs come in the form of a one-off franchise fee of £30,000, and between £200,000 and £500,000 to buy a restaurant. Only 25 per cent of the investment needs to be in unencumbered funds with loans being able to make up the remaining amount.

ESTIMATED TOTAL COST

£200-500k



THE LITTLE GYM

The Little Gym is a children's gym offering classes for kids aged from 4 months to 12 years. The typical initial set up investment ranges from £222,000 to £309,000 with the franchisee needing to have at least 30 per cent capital upfront, allowing the remaining 70 per cent to be financed by a bank loan. The franchisee entrance fee stands at £38,500, which is included in the initial investment, but the lease deposit and short-term operating working capital is excluded, adding at least an additional £40,000 to costs. Parents and those who have an affinity to working with children are well suited to become The Little Gym franchisees.

ESTIMATED TOTAL COST

£222-309k

CeX

Second-hand technology retailer CeX offers franchisees the choice between a standard store with a typical startup cost of £230,000 or a smaller outlet with a lower investment of £140,000. Of the total startup cost, franchisees are expected to make a minimum personal investment of £70,000 for the normal store and £40,000 for a smaller shop. The majority of this balance will go towards stock and fitting out the store. Franchisees investing in CeX will be required to go through an extensive 12-week store-based training programme with this opportunity suited to those happy to get involved at all levels of the store from management to serving customers.

ESTIMATED TOTAL COST

£140-230k



SUBWAY

Fast-food sandwich chain Subway already has 40,000 stores in more than 100 countries, with around 2,000 of these in the UK, but there are still plenty of opportunities for new franchisees. Depending on the size of the Subway store, estimated startup costs vary dramatically. The lower-cost option is around £85,000, going all the way up to more than £220,000 for the more expensive stores. No matter what choice the franchise makes, a £8,500 franchise fee is payable. Franchisees will normally work at all levels, including everyday running of the store to accounting tasks.

ESTIMATED TOTAL COST

£85-220k

DRAIN DOCTOR

Domestic and commercial plumbing and drainage service company Drain Doctor requires an upfront franchise fee of £35,495 plus VAT, which covers local marketing, operational support and branded materials, alongside other ongoing services. Franchisees are expected to commit to an initial ten-year licence that can be renewed at no additional cost. As the franchisee can either run the operation as a full-time job or just manage the business, this opportunity would equally suit an experienced tradesperson, who wants to be hands-on, or an outside investor.

ESTIMATED TOTAL COST

£35k



MOLLY MAID

Molly Maid provides house cleaning services across the UK and is a lower-cost franchise option than fast-food chains, gyms and other high-cost franchises. A £7,975 franchise startup package, £9,000 marketing launch programme and a minimum of £8,000 in working capital are the three main upfront costs for new Molly Maid franchisees. This home-base franchise works well for individuals who want flexible working hours and a good work-life balance, as well as providing a viable franchising opportunity for those who lack formal qualifications or business experience.

ESTIMATED TOTAL COST

£25k

KUMON

Kumon study centres provide after-school study programmes in maths and English. The full-time business opportunity requires at least £3,000 of investment upfront, including £400 for the initial licence fee and £2,600 for marketing during the first year of trading. This figure does not include rent and any other running costs, but these are usually low as the study centres can be operated from church halls or leisure centres, hired only for the two to six hours a week of class time. Due to the educational nature of Kumon, all franchisees must have a university degree and pass a proficiency test in maths and English.

ESTIMATED TOTAL COST

£3k



COMMERCIAL FEATURE



Rebranding to take on the world

The hallmark of a successful brand is an ability to know what its customers need today, what they will want tomorrow and respond. It is this quality that has earned Stagecoach Performing Arts its place among the UK's most successful franchise companies



Founded in 1988 and renowned for its unique educational framework that combines the learning of singing, dancing and acting skills, the company recently rebranded to focus on the power learning through great performance opportunities can have on a child's future, unlocking their creativity and equipping them with valuable skills for life.

"When learning skills becomes performance enhancing we call it developing 'Creative Courage for Life'," says Stagecoach chief executive Sarah Kelly. "We knew that children gained confidence from being at Stagecoach, but to accomplish in today's world you also need to be brave and that is what performance can do for a child. Refocusing our brand to reflect this ensures that we have the right model and proposition for our franchisees to build profitable businesses now and in the future."

The ethos behind Creative Courage for Life underpins the aspiration that every parent has

for their children, wherever they are in the world. "Parents everywhere just want their child to accomplish whatever they set out to do, and be given the ability to grab life's opportunities with confidence whatever they may be and whenever they come along," says Mrs Kelly.

Rebranding the well-established, market-leading brand was a major undertaking. Initial research to discover how everyone in the Stagecoach community understood and articulated the brand revealed high levels of passion for the business. But it also revealed a disconnect between the way they described Stagecoach and a wider belief that change was needed to stay relevant. However, much has changed since the business was first launched.

"Children today live their lives through screens and parents recognise that vital life skills are missing," says Mrs Kelly. "They want freedom for their children, but also to protect them from the unknown. They won't always be there to accompany them on their life journey, but what they can do is equip them with the skills that will help them accomplish on the stage of life; skills that can be delivered by learning the performing arts. Once everyone understood why we needed to modernise and were aligned with Creative Courage for Life, adoption was easy."

The new brand proposition was initially rolled out in the UK, with the support of a brand steering group of franchisees. With the development of a range of new brand assets, including a new logo, cinema commercial, website and franchisee's brand

toolkit, the proposition was then rolled out in two other major markets in Europe and the Americas. Within a 14-month period, all Stagecoach's global franchisees will have adopted the brand's new look, ready for the company's next stage of international growth plans, which have been boosted by the recent success of two Stagecoach summer camps in Beijing.

"The provision of good children's education is very important in Chinese culture. Add creativity, life skills and learning English, and the result is a rich educational framework that will attract Chinese parents," says Mrs Kelly. "We are in advanced discussions to open our first school in China, while other interested parties have contacted us from across Asia."

As a brand that recognises the importance of evolving to meet changing market demands, Stagecoach has invested heavily in its franchisee support teams and systems, enabling them to deliver a world-class service and proposition for existing and new franchisees alike.

In 2018 the company will celebrate 30 years of delivering high quality children's education in performing arts to more than a million children, while looking to the future for the Stagecoach network of over 300 franchisees and 3,500 expert teachers as it enjoys continued growth within existing and new territories.

Mrs Kelly concludes: "The market is ready, we are ready, and we have an exceptional model and product to unleash to the world."



SARAH KELLY
CHIEF EXECUTIVE
STAGECOACH PERFORMING ARTS

For more information please visit
www.stagecoachfranchise.com

COMMERCIAL FEATURE



Golden age of fitness franchising

Health and fitness is now top of people's priorities for wellbeing. They are heading to the gym in increasing numbers, creating a golden age for a fitness industry that is seeing record levels of growth



According to the *2017 State of the UK Fitness Industry Report*, 9.7 million people have private gym memberships, an increase of 5.1 per cent on the previous year. This growth is proving irresistible to investors, particularly in the buoyant franchising sector.

Leading the way is global success story Anytime Fitness, a health club franchise that is already the second-largest gym chain in the UK and accelerating its growth strategy from 130 clubs open to 550 to meet demand.

The UK public are embracing the fitness revolution and with government initiatives encouraging people to become healthier and more physically active, growth looks set to increase.

"The fitness sector is an exciting one to be in, but you don't need to be a fitness fanatic to run an Anytime Fitness franchise," says general manager Brett Edwards. "In fact, that's the beauty of franchising generally; you are following a proven business model with a UK success rate of more than 99 per cent. What you do need is passion and a commitment to growing your business and helping your members get to a healthier place."

The Anytime Fitness business ethos is founded on the four "Ps" – people, purpose, profits and play.

"Get the people, purpose and play elements right and your profits will follow," says Mr Edwards. "By following the model, our franchisees find that on average they reach cash

break-even around month eight and are taking out their initial investment around month 20."

The size of the global Anytime Fitness network, with more than 3,600 gyms in 33 different countries, illustrates the model's success when in the right hands. Anytime Fitness franchisees are typically not from a fitness industry background, but are entrepreneurial individuals who recognise the advantages of being part of a large and growing network. This high-investment, high-return franchise opportunity is attracting franchisees who want to work on a business, but not in it.

“ This high-investment, high-return franchise opportunity is attracting franchisees who want to work on a business, but not in it

Mr Edwards explains: "Our growth over the past few years has piqued the interest of franchisees who have already invested in other big high street brands, such as KFC, Domino's, Costa Coffee and O2, and see Anytime Fitness as a perfect fit for their growing franchise portfolio. Last year, 25 per cent of our new territory sales were to existing franchisees wanting to expand, having opened a successful club."

As well as compelling growth figures, Anytime Fitness offers a

number of additional benefits that set it apart from its competitors. These include a fixed management franchise fee and a steady income through direct debit collections. Health club members join for 12 months, paying an average £30 per month, giving them access to more than 3,600 clubs around the world, 24 hours a day.

Mr Edwards says: "Anytime Fitness has outpaced the growth of some of the well-known franchise brands – growth that has been upheld by a well-developed support mechanism, which franchisees follow, and includes everything they need to set up and run a club. No other gym-franchise operator in the UK has opened as many clubs and has this level of experience.

"A typical franchisee is looking to invest in a growth sector, wants to achieve a better lifestyle and be part of a growing brand which gives them a healthy return on their investments. Many of the Anytime Fitness franchisees have chosen to escape the corporate rat race and be their own boss.

"Whether they have ambitions of running one club, or opening five or more clubs, our franchisees can build a very successful business and achieve a healthy work-life balance. We know that if we find the right people, who are highly motivated, focused, engaged and can follow the model, they will succeed."

Contact Anytime Fitness and start your journey now
anytimefitness.co.uk/own-a-gym

SUPER-FRANCHISORS

Watching the rise of the franchisors

Investors see the attraction of building a portfolio of varied franchised brands, benefiting from shared expertise, economies of scale and a bigger bottom line

DANIEL THOMAS

The second-hand goods market might sound like an odd place to build a business, let alone a business empire, but US firm Winmark has made this its stock in trade since the late-1980s.

Starting with a franchise of four shops selling lightly used sports goods, the Minneapolis-based company has gone on to buy or launch four other brands, specialising in second-hand musical instruments, toys and fashion for women and young adults.

Far from reporting thrift store-like sales, total revenue was \$66 million (£51 million) last year, while its market capitalisation was around \$550 million at last count, up from \$21 million in March 2001.

Crucial to this success, it says, is that its various brands operate as franchises with more than 1,200 independently run stores.



While many of the big franchisor groups are focused on the US, the UK and Australia are increasingly trying out the model

"What I love about this model is that we're working with partners at a local level, who have a vested interest in the business. It is one of the most powerful dynamics you can have," says Steve Murphy, the firm's president of franchising.

Winmark is one of a growing number of businesses moving franchising forward through consolidation.

These so-called "super-franchisors" believe that running one franchise is much like running another, be it in terms of maintaining a brand's standards across a large network, creating a scalable business model or offering your franchisees back-office support in areas such as marketing and human resources.

So they look to offer the same across multiple franchise brands, in pursuit of greater profits and economies of scale.

Perhaps the best-known super-franchisor is the Dwyer Group, a Texas-based firm founded in the early-80s by the charismatic entrepreneur Dom Dwyer. The company owns 19 service brands in repair and maintenance, including The Grounds Guys, Five Star Painting and Molly Maid.

Mike Bidwell, a one-time franchisee who now leads the firm, says his 2,800 franchisees benefit from an array of shared services, such as aggregate purchasing and help with staff training. However, they also get to share customers, with the firm recently launching a service in the United States called Neigborly, which enables users to buy services



August_0802/Shutterstock

01

from its many brands through a centralised portal.

“If you have other needs we will say, ‘Try this plumber or that groundsman’. We’re cross-selling and making life easier for our customers.”

He believes the steady growth of firms like his owes much to the strength of franchising as a business model. Firstly, franchisees stump up much of the capital costs of getting a franchise off the ground, meaning the franchisor can scale faster “because they are using other people’s money to do so”.

“You do give up some control and some profits, but it balances out,” he says. “Having local owners also gives you a level of commitment you don’t get with internal managers. They are more likely to go the extra mile for you and for their customers.”

Not surprisingly these dynamics have attracted a flood of private equity money to the market, with most of the big super-franchisors now being backed by outside investors.

John Reynolds of the International Franchising Association (IFA) says private equity houses provide the firepower a group needs to make acquisitions, enabling them to expand. In return the investor

01 Super-franchisors purchase multiple units and typically offer franchisees back-office support such as marketing and human resources

02 Countrywide Grounds Maintenance was recently acquired by Dwyer Group, a Texas-based super-franchisor that now owns 19 service brands

backs a business with a portfolio of proven brands and predictable revenue streams.

At Winmark, for instance, each new franchise pays the firm an upfront fee of \$25,000 and the company takes a 5 per cent royalty from their weekly sales for ongoing support, although this stands at 3 per cent for its musical instrument franchise Music Go Round. Contracts

last ten years.

NRD Partners is an investment house targeting the space. Its founder Aziz Ashim began as a franchisee, running large numbers of units for brands such as Taco Bell, but is now backing brands themselves.

Over the last three years, NRD has invested in three fast-casual restaurant businesses, two in the US and



02

Dwyer Group

the other in South Africa. “All the growth in restaurant franchising is coming from emerging brands that reflect changing consumer habits and millennial tastes,” says Mr Ashim of his investment strategy. “And as we have worked in the industry for years, we know how to spot brands with good unit economics, both for the franchisor and franchisee.”

Running a franchisor group successfully does come with challenges, though. As groups take over existing networks, it can be hard to change their culture, particularly when franchisees are used to providing services a certain way.

“As we scale across the US and Canada, we have nine offices and I worry about our culture,” says Mr Bidwell. “Dwyer is a special place to work and getting that replicated across markets isn’t easy.”

The US is also facing a shortage of franchisees, according to the IFA, and finding good partners can be hard.

“You have to put your brand in the hands of someone who will look after it,” says Winmark’s Mr Murphy. “We look for people who will be engaged in the business, not hands-off. We also want people who are engaged in the local community as our franchisees are going to be part of that.”

It’s vital to hire well from the start, he says, as under state laws it is very hard to cut ties with an underperforming franchisee.

“In reality, every franchisor has their bottom 5 to 10 per cent of partners and you need to help them,” he says. “We use benchmarking a lot and try to help them to understand where they are going wrong.”

While many of the big franchisor groups are focused on the US, the UK and Australia are increasingly trying out the model, albeit on a smaller scale. Groups have also crossed borders with Dwyer now operating in nine countries.

Pointing to the success of hotel chains such as Marriott and fast food giants like McDonald’s, Mr Reynolds says franchising has “enormous global potential” and super-franchisors should take advantage of that fact.

“A US firm can sell their licences in Asia, Africa and the Middle East, and technology has made it much easier to do,” he says. “Franchising defies national boundaries.”

CASE STUDY
WINMARK CORPORATION



Nejron Photo

Launched in Minneapolis in 1988, Winmark began life as a franchise of four second-hand sporting goods stores called Play It Again Sports. According to Steve Murphy, its president of franchising, the firm quickly saw the value of buying

and selling from local people, and decided to expand.

Today, Play It Again Sports has 280 stores and Winmark has bought or set up a clutch of other used-goods franchises, including toy chain Once Upon A Child, which has 359 stores, musical instrument shop Music Go Round, with 33 stores, and fashion brands Style Encore and Plato’s Closet, with 58 and 475 stores respectively.

“There’s a lot of used merchandise in the world that still has a lot of life to it, but most people haven’t had outlets to go and sell it,” says Mr Murphy. “That has changed with the internet, but people still like the convenience of being able to come into a store and get paid for their goods.”

The firm not only gives franchisees back-office support in areas such as marketing, it also provides a proprietary point-of-sales system, which Mr Murphy calls “the brains of the operation”. “It helps them work out what to pay for used goods and what to charge customers in store. It is based on 30 years of our experience; all they have to do is punch in the details,” he says.

After almost falling into administration around the millennium, the Nasdaq-listed company has grown significantly, hitting \$22 million in net income last year. It also set up Wirth Business Credit, a small-business supplies leasing company, and Winmark Capital, offering consultancy to emerging franchisors with a view to investing in them.

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BECOMING A FRANCHISOR



LINDA WHITNEY

Turning your business into a franchise could enable fast expansion more economically than setting up branches. Figures from industry body, the British Franchise Association, show there were more than 901 franchisor brands in the UK in 2015 and 44,200 franchise outlets.

However, many business owners know little about franchising and they may be missing growth opportunities as a result.

Essentially, franchising allows you to increase your number of branches, but with part of the investment provided by their operators – your franchisees.

Peter Crolla chose franchising when he wanted to expand the family ice cream business. He tested the concept by running two pilot franchise outlets in Glasgow and 2016 decided to launch the Crolla's Gelateria franchise.

"It took about six months to prepare for the launch, including creating a franchise management team and drawing up the franchise agreements, operations manuals and systems," he says.

It cost around £60,000 to £70,000, but Mr Crolla says: "It is a lower-cost option than expanding through branches, because the franchisees fund their outlet fit-out, which is £150,000 to £200,000."

It can also be faster than opening branches. Crolla's already has two franchised outlets in Glasgow, others in Edinburgh and Aberdeen, and Mr Crolla expects to have eight by the end of the first quarter of 2018.

But not all businesses are suitable for franchising.

Suzie McCafferty, founder of franchise consultancy Platinum Wave, says: "Your underlying business must be successful, as you will be asking your franchisees to invest in it. If you cannot make a success of it, why assume they can?"

Your business must be proven to work, which is why you should run a pilot franchise. The business must be capable of being replicated in different locations and franchisees should be capable of learning your basic business methods fairly quickly.

A business that depends on your personal specialist knowledge, experience and contacts or requires qualifications which take years to acquire is unlikely to be suitable.

Can you afford it? While franchis-

ing involves using your franchisees' money to expand your business, it still requires a significant investment from you.

Chris Roberts, director of Franchise Finance, which arranges finance for franchisors and franchisees, says: "You face the cost of creating the franchise business, including a feasibility study, franchise development plan, operations manual, financial projections, recruitment plan and more.

"Assuming you use qualified professionals to help you, it will probably cost around £30,000 to £40,000."



When your business becomes a franchise, your role will change dramatically from independent business owner to franchisor

It is also advisable to run at least one pilot franchise. "You need not do this, but banks are unlikely to lend to your franchisees if your model has not been tested and proven viable," says Mr Roberts. The cost of running the pilot will vary according to set-up costs and working capital required.

In addition, you will need working capital to keep your business afloat until sufficient royalties start coming in from successful franchisees. "The additional working capital is likely to exceed the £30,000 to

£40,000 initial set-up cost of the franchise," says Mr Roberts.

"If you want to borrow to fund the transformation to a franchise, the maximum amount you can access is 50 per cent of the total cost, and you will need to demonstrate a robust and professionally produced business plan."

Expect to be asked for personal guarantees backed by security, such as a charge on your home.

Going the franchise route also involves a degree of risk to your business, so legal protection is essential. "A legal agreement protects your business systems, products, brand and processes, so you can control your franchisees and ensure they follow your systems, standards and rules," says Jane Masih, franchise specialist at solicitors Owen White.

"A basic set of legal agreements and advice for turning a small business into a franchise typically costs £4,000 to £5,000," says Ms Masih.

It also pays to hire an experienced franchise manager to run the franchised arm of your business. While you may know a great deal about your company's product or service, running a franchise is a specialist skill, which a limited number of people have. "Look for a manager with the Qualified Finance Professional qualification and a track record of success," says Mr Roberts.

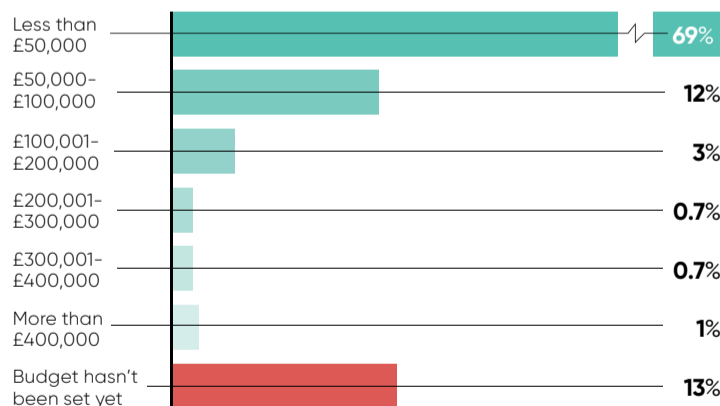
So when should you get started on a franchise project? Ms McCafferty says: "Your business must be ready, but so must you. When your business becomes a franchise, your role will change dramatically from independent business owner to franchisor. Are you ready to stop doing what you love?"

Franchising to expand your business

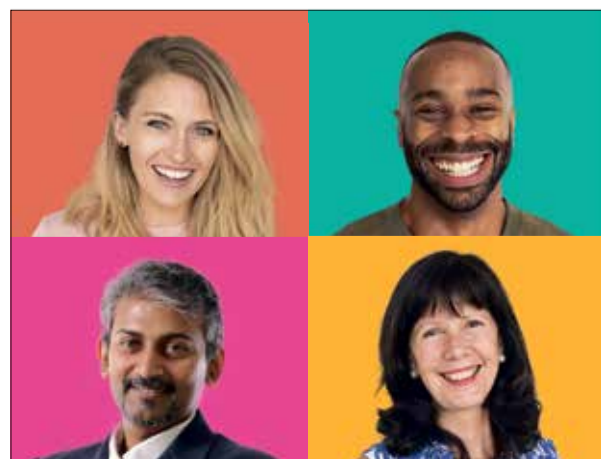
If you are considering expanding your business, stop – you could have overlooked a method that could save you time and money

STARTUP FRANCHISE COSTS

HOW MUCH POTENTIAL FRANCHISEES ARE PLANNING TO SPEND ON STARTING A FRANCHISE



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'Our community is willing and able to share knowledge and experience for the benefit of franchising colleagues'

PIP WILKINS
Chief executive
British Franchise Association

A big part of what makes British Franchise Association (bfa) membership attractive to franchisors is that it is standards based. Use of the bfa logo shows that a brand has passed our rigorous accreditation process, and proven themselves to be a viable and ethical franchise.



to their network to help keep them on the right track. Without this support a franchisee would have to start their business without a proven model and business expertise to lean on in times of difficulty.

Along the same lines, franchising is a lucrative model for brand growth. However, without exceptional franchisees, who have the motivation and drive to build a business and make it a success, franchisors would struggle to expand their business effectively.

Our community is uniquely willing and able to share their knowledge and experience for the benefit of their franchising colleagues and the industry as a whole. In a world where businesses traditionally favour secrecy and work to outcompete the competition, we believe this is what sets the franchising community apart from the rest.

Whether a professional adviser providing insight into positive industry trends or giving up their time to share their knowledge and expertise at a bfa event, a franchisor dedicating their time to the benefit of their network through operational developments or developing relationships with other franchisors and sharing their hard-earned knowledge, our community shares a common goal to champion the community of ethical franchisors in the UK and achieve the promotion and recognition this thriving industry deserves.

As an association we understand the importance of working together towards this common goal. That is why we are working towards representing the whole franchising industry. We represent professional advisers, franchisors and suppliers to the industry. Our present goal is to grow our franchisee membership community to provide franchisees with the representation they deserve. Franchisee membership entitles franchisees to have their voices heard as well as access to exclusive bfa events and member benefits selected especially for them.

It can be a lonely world out there when you run your own business and we are working to build relationships to make sure franchisees, franchisors and advisers to the industry know they are not alone.

We are proud of the standards we uphold and we believe that the community built among bfa members is at the very heart of the bfa's member benefits. As an association we pride ourselves on building relationships with members, and encouraging networking and collaboration at our events.

Being at the forefront of this incredible community is something that we value and this is why our annual conference 2017 theme was The Power of Collective Ambition. The two-day event showcased how collaboration is helping our community to create a stronger voice that has the power to reach the wider media and UK government.

However, collective ambition does not begin and end with the bfa. It is a crucial element of what makes the franchising sector successful in the UK. According to *the bfa NatWest Franchise Survey 2015*, franchising not only provided the opportunity for franchisees to own 44,200 businesses, with over half claiming an annual turnover of more than £250,000, but also created 621,000 jobs nationwide.

A successful franchise operation understands the importance of structure and that each party has a role to play in ensuring the success of the business. Each stakeholder has responsibilities that are instrumental in the business, professional advisers provide current and relevant advice, the franchisor creates and develops systems while supporting their network, and franchisees provide front-line service and build a great brand reputation within their local community. Without each of these stakeholders, achieving the same level of success would be much harder, if not impossible.

Franchisors make the mistakes when developing their initial business so their franchisees do not have to. From their experience they provide ongoing support and guidance



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TaxAssist Accountants has been enabling hundreds of accountants and financial professionals to take control of their career and own and operate a profitable practice.

Since TaxAssist Accountants was established in 1995, many of our franchisees have bid farewell to long commutes and corporate life. Now they and their families reap the rewards of their success, whether it's financial or having more time to spend with their loved ones.

By offering a proven franchise model that consistently delivers double digit growth, we have generated a network of more than 200 shop front locations in the UK. Our model has also show it is can be successfully adapted for international markets, with 18 shops in the Republic of Ireland and four in Australia.

It is testament to the model and support we provide everyone in our network that TaxAssist Accountants has been awarded '5-star franchisee satisfaction' for four years in a row. Uniquely, TaxAssist Accountants is also part-owned by our franchisees, following a management buy-out from the founder in 2015.

If you are interested in investing in your future with the potential to earn a six-figure income after five years, call **0800 0188 297** for a confidential chat or come along to one of our Discovery Days. To find out more visit www.taxassistfranchise.co.uk



TIME FOR SOMETHING FOR YOURSELF?

TIME TO JOIN THE UK'S BEST?

“There's such a wealth of information, tools, support and techniques that I can't possibly fail. And I've had more time at home with the family and I get to walk the dogs in the morning instead of rushing out of the house.”

Rachel Spratling
- ActionCOACH Franchise Partner



When most people think of franchising, they think fast food, but for the last three years the UK's best mid-priced franchise has been a white collar opportunity...

...HERE'S WHAT YOU CAN EXPECT FROM ACTIONCOACH:

- ✓ A guaranteed income of £8,333 per month by month 7; ask us about the Ts & Cs.
- ✓ More learning and development than you can imagine.
- ✓ A meaningful role in your community making a massive difference to local business owners, creating jobs and happiness.
- ✓ Award winning franchise support- ActionCOACH is 1 of only 5 franchise networks to rate their franchise 5-star for four years.
- ✓ The biggest challenge you've faced in your career with a year or two of productive activity to build your initial client base.
- ✓ £30k of unsecured finance from a High St. Bank, so you only need to personally invest £10k.
- ✓ The full support of your franchise network with a shared value of teamwork.

“As someone who had never sold anything other than a used motorbike or car, if you had told me, when I left training 5 years ago, that I'd bank over £1million I would have found it difficult to comprehend!”

Mark Jennings
- ActionCOACH Franchise Partner



“I hit my goal of £10,000 per month client income in month 5, and how great a feeling it is to know that my clients are already benefitting way more! And I can now take my kids to school and pick them up.”

Joanna Martorana
- ActionCOACH Franchise Partner



“Coming out of the corporate environment and into a franchise was like a halfway house compared to starting up on your own. The support and collaboration at ActionCOACH has been outstanding. I feel like I've got as many friends as I did in my corporate life.”

Helen Pethybridge
- ActionCOACH Franchise Partner



Call 01284 701 648



Find out more with the 6 minute video at: actioncoach.co.uk