



Buying a Franchise Abroad

E-book

Foreword

Large amounts of people worldwide emigrate every year; a number of these people will use the opportunity to buy their own business. Only a small amount of these people have had any experience of buying, selling or indeed running a business in their current country of residence, or place of birth.

However people do use the fact that they are starting a new life and are changing their life as an opportunity to try something new.

Buying a business is stressful and starting a business on your own in a foreign country is often confusing, so Franchising may be a sensible alternative for many people.

Although you are legally self-employed as a franchisee, the franchisor has significant control over how you run your business. Franchising has been called the middle ground between self-employment and employment and does suit many people who are not sure whether they would like to “go it alone”.

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About

This e-book: Buying a business abroad is a product of CML Coaching operator of:

www.iwanttochangemylife.com

I want to change my life is a website dedicated to helping people emigrate and relocate successfully. The website provides invaluable information and assistance to people who have either emigrated or who are planning to emigrate in the near future.

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Introduction

The word "franchise" is of French origin and initially had meanings similar to "freedom" or "free." It is associated with the granting of a privilege by an individual or group -- a government, for example, providing its citizens a constitutional or statutory right to vote, or a company offering to others the right to sell its services or products.

Franchising first became popular in the United States after World War II, when several gasoline companies adopted this method of doing business. Singer Sewing Machine Co. was the first business in the United States to use franchising.

Today, one new franchise outlet opens every eight minutes of each business day, according to the International Franchise Association. Sales from franchised establishments account for a around a half of all retail sales in the US.

Franchising has now been exported from the US to the Rest of the World. The choice often being large and confusing, so how do you know whether franchising would be right for you and how can you choose the right franchise?

Perhaps this e-book is the answer?

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What is Franchising?

The term franchising has been used to describe many different forms of business relationships, including licensing, distributor and agency agreements. The more popular use of the term has arisen from the development of what is called "business format franchising".

Business format franchising is the granting of permission by one person (the franchisor) to another (the franchisee), entitling the franchisee to trade under the trade mark/trade name of the franchisor.

In addition, the franchising can and should make use of the entire package on offer, i.e. training in all the elements necessary to establish a previously untrained person in the business and to run it with continuing support and assistance on a predetermined basis.

A franchisee can add considerable value to a business opportunity through his or her hard work. It is saleable and transferable (within the terms of the franchise agreement) and, if you invest in a good franchise, it should increase in value.

Who is in Control?

Each business outlet is owned and operated by the franchisee; the franchisee is in day-to-day control over the operation of his business. However the franchisor retains control over the way in which products and services are marketed and sold, and controls the quality and standards of the business.

Every franchise opportunity is different from the point of view of the amount of “interference” or “assistance” that the franchisor has in the running of the franchisee’s business. So if you want a midway point between full self-employment and employment this could be the option for you.

On the other hand if you expect full independence then perhaps you should think twice about whether to franchise, and a “boss” telling you what you can or can’t do in the running of your business may be frustrating to you.

As the franchisor controls the way the products and services are controlled they also control the amount of advertising of the franchise to potential customers, which will impact, on the profitability of your business. So choosing the right franchise opportunity is imperative.

What are you buying?

The franchisor will receive an initial fee from the franchisee, payable at the outset, together with on-going management service fees, and payment for stationery etc. The on-going fees may be a percentage of turnover, a fixed fee, or a mark up on the actual cost of the product charged, thus reducing the franchisees margin than would otherwise be the case if they were independent.

In return, the franchisor has an obligation to support the franchise network, notably with training, product development, advertising, promotional activities and with a special range of management services.

Buying a franchise gives you the opportunity to run your own business, along proven methods and possibly in an industry in which you have no previous experience. The variety of types of business and levels of investment on offer is enormous, and it is important, therefore that you take your time and do your homework first. Although the failure rate for franchisees is much lower than that in many other new businesses (91% of franchisees in the UK reported profitability in 2002) there are still risks involved, and it will be hard work, particularly in the first years.

However, according to the Small Business Administration in the US, less than 5 % of all franchise units fail each year. This is compared to 30 to 35 percent of small businesses that fail within the first year of operation in the US generally.

This route provides a nice compromise between starting your own business and purchasing an existing one. Franchisors have established a set business plan for their franchisees, offering cookie-cutter-type guidelines for new business owners. Financing may be available through the franchisor to help you purchase a franchise. Training and operational support are provided, albeit at varying levels, depending upon the franchise.

Franchisors have an incentive to aid their franchisees because they receive a royalty fee based upon the sales or profitability level of the franchisee. Franchisors may provide help—not only in starting a new franchise, but also in the assessment of existing franchises to help promote operational improvement. On the flip side, the formulaic nature of franchises can create boundaries with regard to the ways a franchisee is allowed to run his or her business.

Because the failure rate of franchising is much lower for the established franchise expect to pay a premium for that benefit. A franchise opportunity may therefore be more expensive than setting up in business yourself or buying an existing business. So it is even more important that you find the right opportunity for you.

Reasons New Franchisees Fail

He or She:

1. Believes owning a franchise is easy. Franchisors provide training and support, but franchisees must manage their new businesses. This can mean long hours and hard work.
2. Does not enjoy the franchise. Discovering too late that franchise system does not fit his/her personality type and preferences.
3. Does not follow franchise system. Franchise buyers invest in a franchise to learn the business. It is important to adhere to the high standards of quality which makes the franchise system stand out, and which customers expect to get from every other unit in the franchise system.
4. Does not enjoy interacting with people. Often success depends on the franchisee's ability to get along with customers, employees, other franchisees, and of course the franchisor.
5. Could not really afford the franchise. Until the new franchise made a profit, he/she did not have enough money to run the business and to cover living expenses.
6. Did not have family support. Owning a franchise should be a family decision since there will be intense demands on your time.

Researching the Right Franchise

Whether the company you are considering is a member of a national franchising organisation or not, you must still research the company fully and carry out due diligence on the opportunity. We recommend that you carry out a number of tasks:

- Speak to existing franchises, not just the ones that the franchisor directs you to but also all of them; they may be able to provide you with contact details of failed franchisees.
- Be sure it's a business that you will enjoy not just one that has a good reputation, if you don't enjoy it you probably will not make money yourself
- Be realistic about the amount of money you need to make, and choose a business that should cover that.
- Ask the franchisor to disclose to you his financial record, the records of the directors and the basis of the projections they make on your franchise.
- Take professional advice; have the franchise agreement checked by a specialist solicitor
- Decide what you like to do in your spare time (often as a hobby), and investigate what opportunities exist in this franchise sector. Couple that with your personality (are you an extrovert or introvert) and financial capability.
- Talk to your bank, or a bank in the country you wish to relocate, they may already have experience of dealing with the franchise operation that interests you.
- Contact a national franchise organisation in the country you wish to locate, whether or not they are a member they will be able to provide helpful advice to you

Ten Franchise Tips for Migrants

- Only consider franchises that fit with your skills and experience. Learning to operate a business is enough of a challenge without having to learn new techniques and skills at the same time.
- If you are worried about your language skills in meetings with the franchisor, take along a friend or business advisor to assist in translation.
- Never sign anything until you have taken the advice of an accountant and a lawyer with experience in franchising in that country.
- Spend at least one day "doing the rounds" with an existing franchisee; see exactly what is involved in the day-to-day business.
- Find out exactly how the business is marketed most efficiently - personal selling, advertising, word-of-mouth referrals or what.
- Do the sums. Prepare your own cash flow forecast and budget for the business and remember to allow for the capital or loan costs of the franchise. The franchisor's figures will be a good starting point but every business has its own costs and expenses. Do your own figures!
- Think about the unique possibilities and competitive advantage you hold by being a member of a migrant community is there ways of marketing specifically to your own communities?
- Remember that having an accent can be a good talking point to develop rapport with a client. Never get tired of answering the question 'where do you come from?'
- Use your recent arrival in as a positive factor. Tell your clients you are keen to grow your business in the country and need their help with referrals.
- Be clear about YOUR personal competitive advantages. Don't rely on the franchise image and advantage to do it all for you.

Specific Issues About Buying Abroad

If you are considering buying a business or settling a business up from scratch, the amount of time it used to take to get a decision out of Immigration Services is often a problem. It may take up to six months to get a decision.

If a potential immigrant is looking at buying an existing business, six months is too long to wait. Something on the market at the time they made their application would have been sold by the time approval came through.

Immigration Services check into things pretty thoroughly and the better the brand the less likely the chance of it falling over. So that has an impact. For these reasons a franchise opportunity may be the idea option for many business migrants.

Research suggests that potential franchisees from among the migrant communities have one of three goals:

- Building or buying himself or herself a secure job
- Returning a profit upon investment
- Providing a means of establishing themselves in the country

Although buying a franchise offers newcomers many advantages, it is not going to suit everyone and certainly shouldn't be marketed as the easy alternative into a new country.

Migrants form a large pool of potential franchisees, and many are very successful, many are intelligent and well educated. Some may have a lack of business skills and initial language difficulties, but they are keen to succeed and can be really successful as franchisees. As they become more experienced and more confident, they may contribute more and more to the system or they may simply graduate from it and move on to the next level of investment.

But a lot of migrants come from countries where there is basically no experience of franchising and no understanding of the way it operates. They don't recognise the value of reduced risk. In a lot of countries, if you have a shop or a business you can pretty much expect to get by. That's why a lot of immigrants buy independent businesses, especially in the food business.

Another issue that comes up is that migrants often make the assumption that doing business overseas is the same as doing business in their own country. If you come from an area where a deal is done on a handshake, a franchise agreement is a formidable document, especially if your understanding of the language isn't so hot.

On the other hand, if lack of trust is an issue in your own country, the franchisor/franchisee relationship - which depends on a lot of mutual trust - is pretty disturbing. And attitudinal differences can be key.

A lot of South Africans, for example, are used to working on an independent model rather than a consensual one, and a franchise relationship demands a bit of both. That can make life interesting.

As an example of how fundamentally different some of the cultural differences are, let us look at the business handshake.

In some cultures, men and women don't shake hands with each other at all, but in New Zealand for example everyone in business does – usually fairly briefly. In the Middle East, a business handshake is a much longer affair, which New Zealanders would feel uncomfortable with.

A more serious difference comes when alien concepts, such as leases, are involved, not understanding that a lease agreement and a franchise agreement are two different aspects of business, can lead to a new franchisee getting into legal difficulties.

And one other potential problem is that of unrealistic expectations on the part of new franchisees in a new country. Some people expect everything to be done for them by the franchisor, which isn't the way, that franchising works. The British are particularly prone to this - some take the attitude "Head Office should fix this" rather than "How will I fix this?"

And people from the former communist bloc can have the expectation "If it isn't being done it isn't allowed".

But you don't buy a franchise and then wait for instructions. You have to learn that if you want something to happen, you have to do it yourself.

It can be a serious problem if a franchisor advertises, "We provide full marketing support," a potential franchisee might think that they really don't need to worry too much about sales skills. They believe that advertising will do it all. But even if the franchisor does all the marketing of the brand you still have to get out there and visit clients or handle the people visiting you. That can be a different matter – especially if you are not too confident of your understanding of the language.

Countries immigration services may at one time have looked favourably on all franchise operations however in New Zealand for example applicants now to have a minimum of two years of experience relevant to the franchise they wish to purchase.

Certain franchise operations may also be looked upon more favourably by the immigration services due to their experience of successes in the past, so looking at the number of foreign franchisees may give you an indication of

whether an application to that country by buying a franchise will be successful.

There is certainly considerable interest in franchising among potential migrants; several are already involved with franchising in their own country.

While some migrants arrive with few assets, many newcomers are cash-rich after selling up in their homeland. Some have business skills and experience others are looking for opportunities. All need help, advice and familiarisation with the culture of their new country. These are all aspects that should make franchising very appealing.

In many ways, buying a franchise is an ideal option for an immigrant. They often have the money to buy but they don't know the market or have the contacts to start their own business from scratch. They can supply the capital, the enthusiasm and the business skills, and the franchise offers them a business, a name, an operating system, and the necessary training and coaching. It also offers a reasonable level of certainty, which is important.

The Risk Involved

Much Business Literature indicates that buying a franchise is inherently less risky than starting a business or buying an existing business. The franchisor offers a proven concept, recognized name, guidelines and training in return for an up-front fee and a percentage of what the franchisee, the buyer of a franchise, makes each year.

However, new franchisors franchising their operations for the first time don't necessarily succeed more often than non-franchised businesses do.

A study looked at the 1983 crop of new franchisors in the US to determine how many were still franchising 10 years later. It found that the failure rate of new franchisors is roughly the same as that of all new businesses. By the end of 1993, less than one quarter of the initial cohort of franchisors was still franchising.

If you buy a new franchise from a new franchisor, there is a 75 percent chance the person who sold it to you won't be around to support you in 10 years. So, it's very important that people thinking of buying a franchise outlet differentiate from long-standing franchisors and those that just started this year or last year.

As a result you could be in a situation of having a successful and profitable business yourself, being reliant on the franchisor for support, but because the franchisor has gone out of business himself your business collapses, with the result that you will lose your livelihood and the investment.

Why are franchises so popular? In addition to the perception, for business people, of carrying less risk, franchises fulfil the wants of the modern consumer by providing consistent goods and services of recognized quality.

It is a fact that surviving franchise systems tended to be older and larger than non-surviving systems when they began franchising. They also had higher franchise fees and higher levels of initial investment, although these differences were not always significant.

Franchise systems that survived during the first four years -- when 57 percent of their cohort went out of business -- shared several characteristics that directly influenced their survival:

- **Expansion Through Franchising:** The surviving businesses emphasized growth via franchises, rather than through company ownership of retail outlets. Emphasizing franchising growth resulted in faster expansion and economics of scale in purchasing, administration and distribution.
- **Initial Growth in Company-Owned Outlets:** Surviving franchisors opened most of their company-owned, as opposed to franchised,

outlets during their first two years. They stopped adding company-owned outlets after their first six years of business. These strategies allowed them to learn the business by operating their own outlets initially, and then concentrate on expansion using franchises and the advantages they offer.

- Knowledge Transfer to Franchisees: Surviving businesses spent more time training franchisees; provided more help in the form of operating manuals, financing and marketing assistance; and required a higher investment from franchisees in signs and equipment.
- Lack of Franchisor-Specific Assets: Franchisors whose advertising fees were higher than the industry average, and who transferred proprietary equipment to franchisees, didn't survive as often as franchisors that avoided these practices. Why? They introduced bilateral bargaining problems -- the franchisor becomes dependent on the franchisee, which can withhold advertising funds or refuse to return equipment, for example, in exchange for what he or she wants.

Five to 10 years into franchising, factors that predict survival of a system are similar to those important during the first four years -- except for one.

Knowledge transfer, the ability to know how to make a profit in that business, in later years seemed to decrease a franchise system's chances of survival.

Competitors pay significantly more attention to new franchise systems after they have survived for four years, at that point, competitors often become interested in discovering what knowledge the new franchisor is transferring to franchisees, in hopes of copying or offsetting that information advantage.

New Franchise or Re-Sales

When you come to a new country with your family, you already have your work cut out to establish yourself in that country. You have to find a home, a school for your children, and be able to settle into a new environment and a new way of life make friends etc.

If you are contemplating a new business venture on top of that, you're quite likely to prefer to go into an existing business that offers more certainty and less stress than a new start-up, but for many the idea of setting up in business abroad without assistance is far too daunting.

You also may not like the idea of starting from scratch knowing that the first 2 years of running a business is often the most difficult. You moved to a new country for a better lifestyle only to find that you have to work, work work.

Perhaps therefore a ready market for you may be to buy an existing franchisee. An existing franchise offers the benefits of having a partnership with another person to help you in business but without the risks of wondering whether the franchise will be successful and also not have the problems of having to work to establish the area.

The downside is that the price will be higher than would be for the purchase of a non-franchised business or a new franchise however for the migrant who has the resources this may be the preferred option.

Franchise re-sale opportunities can be found via the franchisor themselves, many of the websites offer both opportunities, or via a business broker or business transfer agent.

As with the purchase of any business the reason why someone wants to get out of the business needs to be researched and identified. Many franchisees want to sell because they do not like the franchisor, or find that the level of support offered is not acceptable, so carry out due diligence before you decide to buy.

Conclusion

- When you are looking for a franchise opportunity:
- Look to yourself to try to establish whether you are the sort of person who can work within a partnership
- Ensure as much as possible that the country you are moving to is the right one for you
- Ensure that you will enjoy the business, if possible find something within an interest area
- Check out the franchisor, are they easy to work with, are they financially sound
- Talk to as many people as you can about the opportunity
- Check out the market for the products or services you will be selling in that country. What sells in one country may not sell in another
- Carry out your own business plan regardless of whether you need one to migrate to the country. Failure in business is often due to the lack of planning
- Ensure you have enough money to emigrate, buy and run the franchise business
- Take professional advice before you sign any contract

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David Rhodes is the owner of CML Coaching and www.iwanttochangemylife.com, a website dedicated to helping people realise their dream by moving abroad.

An accredited life coach with the UK College of Life Coaching, he also had years of experience selling businesses in the UK in the South of England with Lakey & Co. one of the UK's most respected firm of Business Transfer Agents (Brokers).

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