

# Is franchise for you?

Modern franchising was started in the mid-19<sup>th</sup> century in the United States when Isaac Singer developed it as a method to sell its products (Source: Business Victoria, [http://www.business.vic.gov.au/BUSVIC/STANDARD/PC\\_50190.html](http://www.business.vic.gov.au/BUSVIC/STANDARD/PC_50190.html)). Since then, many have tried franchising. Like all businesses, some failed and some thrived and became the most recognised brands that we are familiar with today such as McDonalds, Kentucky Fried Chicken and so on.

According to the survey done by Griffith University, franchise business in Australia generated approximately A\$128 billion of sales for 2009. There were 1,025 franchisors in 2010 and the industry was employing approximately 690,000 people.

## What is a franchise?

A franchise is an agreement between two parties which one party (the franchisor) grants rights to the other party (the franchisee) to sell a product or services under a trademark or brand. In return, the franchisee will have to pay royalties to the franchisor as per the franchise agreement. Depending on the franchise agreement, you can expect different franchisors to be charging and imposing different rules and conditions to their franchisees. Therefore, it is crucial for potential franchisees to read the franchise agreement carefully and understand the conditions prior to signing. We do suggest that potential franchisees seek independent financial and legal advice before committing to any agreement.

## Advantages and disadvantages of a franchise

Some of the key advantages and disadvantages of a franchise are:

Advantages	Disadvantages
Fast start-up	Higher setup costs
Known setup costs	Ongoing franchise royalties and marketing levies
Easier access to funding	Potential lack of freedom in choosing suppliers
Brand recognition	Agreement has a finite life
Proven business model	Adherence to rules set by the franchisor
Existing system and procedures in place	Reliance on franchisor's strategy
Marketing and advertising initiatives in place	Reputation risk
Access to training and support from franchisor	Reliance on franchisor's existence and going concern
Access to advice and support from other franchisees	

## Conclusion

A franchise business can provide opportunity and support that no other business model can provide. It is crucial to understand that these advantages alone do not guarantee success. After all, a franchise business is still a business and has associated risk attached to it. However, for franchisees that are able to extract and maximise the advantages of this business model, a franchise business can be a great vehicle and has great potential. Hence, this is the reason why some still prefer a franchise business over an independent business.

# Is franchise for you?

We would like to speak to you and assist if you have any questions or concerns. Contact us now for your **complimentary** and **no obligation** first meeting to discuss about whether a franchise business can help you in achieving your goals.

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