

Franchising Fundamentals: The Basics of Buying a Franchise



OUTBACK
STEAKHOUSE®

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What US Statistics Tell Us...

- Franchising is a 3 Trillion dollar business
- Surveys tell us there are more than 2500 Franchises covering 85 Industries and managing more than 600,000 Franchisees (no saturation in site yet!)
- About one of every 14 persons are employed in the Franchising Sector; totaling over 8,000,000
- Franchising limits, but does not eliminate risk





What You Should Know About Franchisors...

The Franchise Method...

- Master Franchise – Sub-franchising (80%)
- Development Agents / Area Representatives
- Area Development Agreements
- Single-Unit Franchise Agreements (Direct Franchising)





What You Should Know...

The Master Franchise Model

- Franchisor grants
- Master franchisee (sub-franchisor) the right to sell
- Unit franchises (sub-franchises)
- Within a defined territory
- Usually at a rate set by a development schedule during a defined term





What You Should Know...

The Master Franchise - a three-party relationship

Franchisor



Master Franchisee



Unit Franchisees





What You Should Know...

The Area Development Model

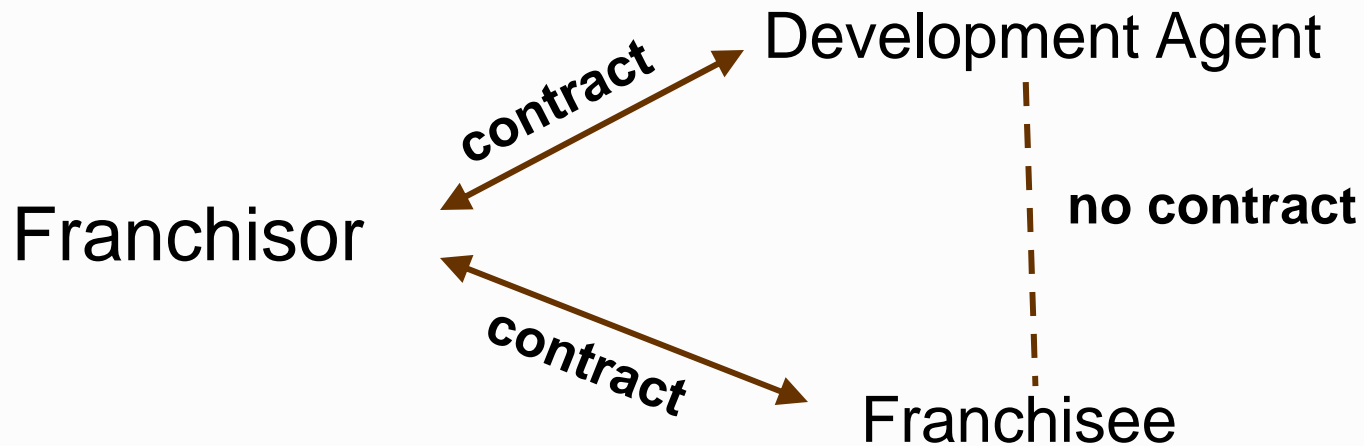
- Franchisor grants
- Area development rights within a defined area/territory
- To an Area Developer (Franchisee) to develop ___ units during next ___ months , and
- The Developer must sign a unit franchise agreement for each for a specific term





What You Should Know...

The Development Agent / Area Representative Model





What You Should Know...

The Single-Unit Franchise Model

- Franchisor grants
- Unit franchisee the right to conduct business using the brand Trademark and Operating systems
- The Franchisee must sign a unit franchise agreement for a specific term





What You Should Know...

Comparison

<u>Master Franchise</u>	<u>Area Development</u>	<u>Unit Franchise</u>
Master Franchisee	Developer	Franchisee
Opens unit franchises and/or grants others the right to open & operate unit franchises	Wholly owns, opens & operates several unit franchises	Opens/operates unit franchises



Predicting - Potential for Success

- What are the current number of Franchisees?
- How long has the Franchisor been in business?
- How long has the Franchisor been Franchising?
- What number of Franchisees have failed in the past five years, and how many Company units have been closed?
- What is the Franchisor's record on Buy Backs?
- What do Franchisees tell you about service & support?





Predicting - Potential for Success

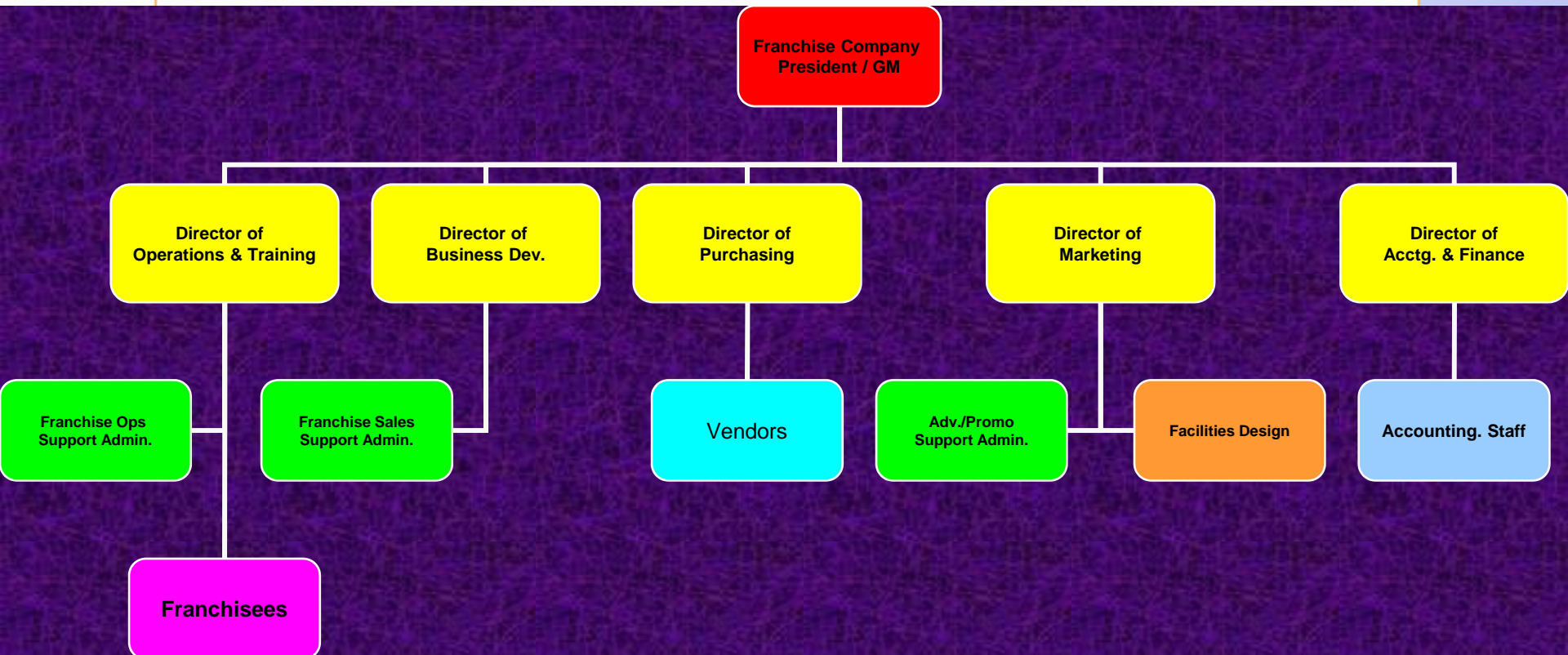
- Does the Franchisor supply a Franchise Disclosure Document?
- How do you judge the experience and competencies of the Franchisor's key management figures?
- What is the financial health of the organization?
- Is there a disclosure of the "Average" Operating Unit?





Predicting - Potential for Success

Franchise Company Organization



Most importantly – Look for Commitment



Predicting - Potential for Success

What to Expect:

- Training and More Training!
- Operations Compliance Reviews
- Follow up Technical Assistance
- Marketing: Building Brand Awareness & Sales
- Needs Analyses / Problem Solving
- Brand Development (R&D)
- Two-way Communications
- Effective Franchise Relations





Predicting - Potential for Success

Alignment:

- Assessments (compliance) – How often?
- Intranet capabilities?
- Company Bulletin Boards, Newspapers ,etc.
- Annual Business reviews?
- Regional Meetings scheduled?
- Advisory Committees - Participation?
- Company Conventions?



Franchise Cost/Benefit Equation

- Upfront & Franchise Fees – what am I paying for?
- On-going Royalty & Ad Coop Fees – value added?
- Mandatory Standards of Operation – better ways?
- Limited independence – conformity is golden!
- All Franchisors are not EQUAL – check credentials
- Career Decision = length of contract – do you agree?
- Your success depends largely on Franchisor's success!
- Partners in Growth





Master Franchise Surveys

Upfront Fee Investment to acquire master license rights . . .

- 36% invested \$100,000 to \$250,000
- 28% invested less than \$100,000
- 21% invested \$250,000 to \$500,000
- 17% invested more than \$500,000

(From 2000 Survey by John P. Hayes, Ph.D., Hayes Worldwide)





Master Franchise Survey

What problem areas were detected from the survey in international Master Franchising?

Hayes:

50% selling franchises and generating franchise sales leads

33% franchisor lack of understanding of the master franchise market place

25% inadequate support from franchises

20% training





Master Franchise Surveys

What problem areas were detected from the survey in international Master Franchising?

Kalnins

Overly aggressive development schedules

Franchise International

- Inadequate initial and ongoing training
- Under estimation of capital requirements
- Unrealistic development schedules






Franchise Attitude

A Franchise relationship is based on:

- *Trust*
- *shared objectives, and*
- *mutual expectations*

It must be an honest and open relationship to yield maximum results and benefits!





Cautionary Note

*Beware of the:
Ka'ching mentality*



Thank you!

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