Fancy a franchise?

If you want your own practice on the increasingly competitive high street, the franchise route offers a number of benefits. But it's no guarantee of success and won't suit everyone

The UK franchise industry generates £12.4bn a year turnover, with around 900 franchisors and 37,000 franchised outlets across the country. McDonald's and other famous fast-food brands offer franchises, along with high-street names such as Thorntons and Specsavers, and white-collar businesses including letting agents Martin & Co and Pitman Training.

Since the mid-1990s, accountancy franchises have also become available. Critics say they are to accountancy what McDonald's is to gourmet food, that work is price-driven and of low standard, and that franchisors are only interested in lining their own pockets. But personal success stories abound, too, drawing in new recruits with promises of minimal risk and high rewards. Are you tempted? First, consider this.

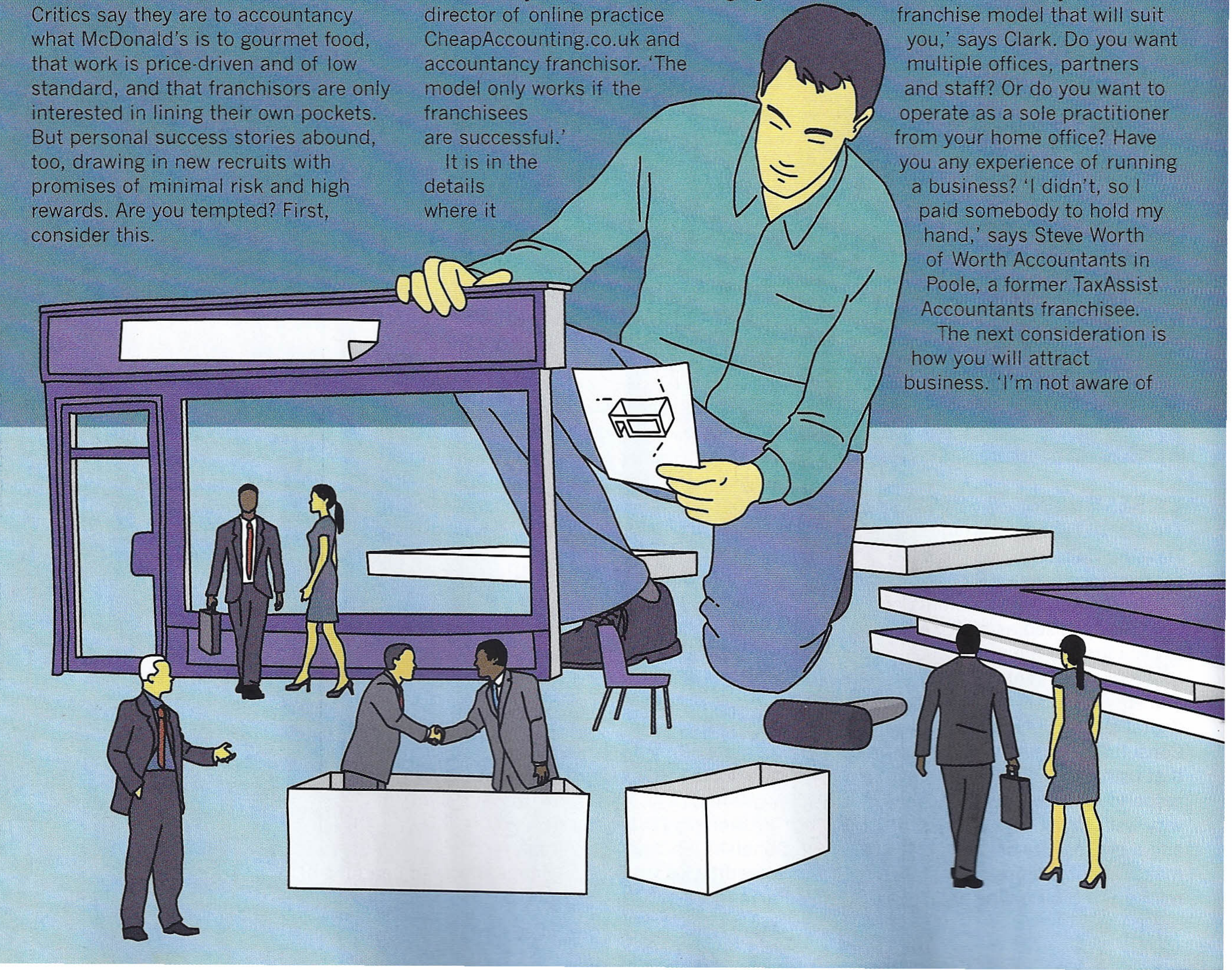
Franchising is the practice of using another firm's proven business model and brand, in return for a licence fee and management service fees. The franchisee has immediate access to clients and support infrastructure. But while the franchisor grows their business without costly investment in a 'chain', this only happens if the underlying business happens for the franchisee, too. 'It's not about them and us,' says Elaine Clark, managing director of online practice CheapAccounting.co.uk and accountancy franchisor. 'The model only works if the franchisees are successful.'

It is in the details where it gets complicated. Different franchisors offer different packages, structure their fees differently and offer varying levels of lead generation. The extent of training, technical and marketing support differs, too. You really need to do your research.

The right franchise

How do you choose a franchise? 'First, ask yourself what you want to achieve and this should lead you to the franchise model that will suit you,' says Clark. Do you want multiple offices, partners and staff? Or do you want to operate as a sole practitioner from your home office? Have you any experience of running a business? 'I didn't, so I paid somebody to hold my hand,' says Steve Worth of Worth Accountants in Poole, a former TaxAssist Accountants franchisee.

The next consideration is how you will attract business. 'I'm not aware of



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any franchise where the accountant doesn't have to source and close at least some prospects,' says accountancy commentator and speaker Mark Lee. Decide on the level of support you will need – and the timescales – to achieve your goals. 'Be realistic about how quickly you can build your client base,' warns Clark.

Next, research the franchisor. 'Check how financially stable they are, how many franchises have opened and closed,' recommends Lee. 'Then, pick a random selection of franchisees and ring them to find out what's gone well for them and what hasn't.' Ask about their income levels, support they receive and any additional or hidden costs over and above their management fees.

As for the franchise agreement itself, which typically runs for five years, do not sign up without taking independent legal advice, says Lee. 'How easy is it to get out of the contract if the franchisor doesn't deliver or if your priorities change?'

Balance pros and cons

Next, check out the benefits and the downsides of your tie-in. 'You get clients passed to you straightaway,' says James Sheard, an accountant with three TaxAssist shops in and around Manchester. You also get immediate brand recognition. 'When you start in practice, you don't have any credibility in the marketplace, but TaxAssist – an established, national brand – lends you that credibility,' he says.

However, you do not have any control over the quality of client referrals. 'I soon opted out of the lead generation part of my contract,' says Worth.

You can, though, choose a franchise package that does not buy you client referrals. 'If you're good at marketing and sales, one of our packages gives you the benefit of all the collateral that we offer, but you build the practice yourself,' says Clark.

Worth came up with his own strategy; others need a lot more help. 'None of our franchisees has had any prior experience of marketing,' says Clark. 'This is where the franchisor can make a real difference.'

What other support from the franchisor can you expect, in return for your fees? 'Initial and ongoing training,' says Clark. 'We cover practice operations and marketing in two days, and give one-to-one sessions afterwards, depending on what skills franchisees need help with. This is different from the longer training courses other franchisors offer because we only recruit qualified accountants.'

TaxAssist's initial training takes six weeks and no formal accountancy qualifications are required (although you do need 'relevant career background'). 'This shocked me,' says Worth.

There is usually a helpline to assist with technical queries, too.

Fees are an obvious downside of a franchise. 'After two years I found I had outgrown what the franchise had to offer,' says Worth, 'yet I was still paying over a percentage of my turnover.' He also found the exclusive territory restrictive. 'It stopped me from growing,' he says. 'There were real opportunities in the neighbouring territory that other franchisees missed.'

A bit like an employee

If you are entrepreneurial, you may find having to follow the franchisor's operations manual restrictive, too. 'You are still a bit like an employee, because there are constraints on how you run the business,' says Lee. A franchisor's operations manual gives guidance on branding, customer care and best practice. 'But it's not like McDonald's rigid structure, where you have to check the toilets every hour,' says

Sheard. 'We have a common operating system and software for preparing accounts and tax returns and for managing client details. Otherwise, I'm pretty much free to run my business my way.'

What about pricing? 'Our franchisees work to CheapAccounting.co.uk's fees,' confirms Clark. There are set fees at TaxAssist, too, but Sheard insists that they are just guidelines: 'There's no obligation on the business owner to charge them. You are free to exercise your judgment.'

Whatever the downsides, you have to balance them with what you're getting in return, says Lee: 'Would you be able to build a successful practice as quickly if you weren't paying a franchisor?'

You also need to consider if you can afford the licence fee and other startup costs and whether you need to arrange funding. 'Franchisees are more likely to get finance if they associate themselves with an established brand, because these have arrangements with banks,' says Lee.

Karl Sandall, chief executive of TaxAssist, confirms: 'Typically the franchise banks, for example NatWest, HSBC and Lloyds, will lend between 50% and 70% of the total investment including working capital, with interest rates, for a secured loan, of between 4% and 7% above base rate.'

Other banking terms tend to be better for a franchisee, too. 'However, I would advise caution when it comes to any business projections that may be required,' says Lee. 'You may have to work harder than you were planning to.'

According to the TaxAssist website, accountancy franchisees 'could generate a turnover of £200,000 to £300,000 after five years'. Is this realistic? Sandall says: 'Our franchisees typically grow their fee income by £60K year on year and one of them has just hit £1m.'

Worth, however, thinks that the advertised projections are optimistic: 'After five years, you're looking at £100,000 to £120,000 average turnover. The only way to achieve the bigger numbers is by investing in the infrastructure and the resources very early on. Most startups don't have the funds to do that.'

However, Worth admits that he achieved income equivalent to what he had been earning when he was in employment within 18 months of starting the franchise.

Sheard, who started with TaxAssist in 2008 and is its Franchisee of the Year for the second year running, is confident about his own projections: '£200,000 to £300,000 after five years? I'll be turning over more than that.'

Not all franchisors or franchisees are that forthcoming with the figures. 'We don't give out projected or average income because all our franchisees differ; we've got some working part time, some full time and some have taken staff on,' says Clark. 'Besides, the income from running your business is only as good as the effort you put in.'

Exit strategy

Finally, have an exit strategy, right from the start. What happens after the contract ends and you choose not to renew? What is the position with your clients should you terminate the agreement part way through? Worth had to pay management fees.

By Worth's own admission, his exit from TaxAssist was a clean break. 'If you've never run your own practice, the franchisor is there as a safety net and, in that regard, TaxAssist is a good model. But, as my practice grew, the value of the franchise was reducing while the cost was increasing.'

Clearly, the franchise model can accelerate the rate at which you can build a practice, but it is not a guarantee of success. As Lee sums up: 'Ultimately you also have to be good at client relationships, good at providing the service and good at winning new referrals.'

Iwona Tokc-Wilde, journalist

*FRANCHISORS

Abacus
www.abacusnetwork.co.uk
Established in 2004, Abacus has over 50 practices with a portfolio of over 2,000 clients.

Certax Accounting
www.certaxaccounting.co.uk
Launched in 1999, Certax now has a nationwide network of over 100 franchisees and quotes projected net profits of between £45,000 and £86,000 depending on practice location and length of franchise.

CheapAccounting
www.cheapaccounting.co.uk
An online solution, CheapAccounting has 19 accounting franchisees after three years.

TaxAssist Accountants
www.taxassist.co.uk
One of the oldest networks, TaxAssist operates from shop-style high-street premises. Its 192 UK and Irish franchise areas earned £21.8m in net fee income last year.

Alternatives to franchising:

Hudson Conway
www.hudsonconway-group.co.uk
A leading practice in Bristol, Hudson Conway has over 20 associate offices in the UK and offers a free seminar on starting and building a practice.

Seahorse UK
www.seahorseuk.com
Seahorse UK offers on-demand marketing and mentoring support (and access to outsourced payroll, accounting and bookkeeping) without any tie-in, annual fees or loss of control.

Members considering franchising should consult ACCA's rules and standards, available in the members area of the ACCA website. Advice is also available from the technical advisory team on +44 (0)20 7059 5920.