



BECOMING A FRANCHISEE

Beginners Guide on Franchising

in the Philippines 2020

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Preface

Recognized both in the international and local arena, franchising is dynamic. It has empowered many aspiring Filipino entrepreneurs to venture into a business that is close to their hearts and has helped many international companies with their expansion goals.

Entrepreneurs recognize the significance of franchising in terms of stability and established business systems that have many benefits than traditional methods. They understand that other than the profit and recognition, franchising is an option that can suffice as an investment, other than getting mutual funds or purchasing real estate.

The term franchising is broad and complicated, but it is understandable and can be learned. It is something that should not be avoided by aspiring business owners. Instead, they must

exert effort to determine its aspects and prepare for becoming the next business tycoon in the country.

This ebook focuses on the critical aspects of franchising in the Philippines and why it is a feasible undertaking to consider. It includes pointers, checklists, and insightful topics that should broaden your understanding of franchising.

It is specifically designed for beginners in the industry, with pointers that can help them as a future franchisee.

We are the Franchise Market, and we aim to help in your franchising journey.

I. What is Franchising?

Franchising is a business venture that seems overwhelming for some people. It is true but understanding its basics helps in developing a worthwhile franchising journey.

Franchising: Definition and Nature

In layman's term, franchising means acquiring a right from the business franchisor to market the same product or services of the owner, including its trademark, logo, name, and the business model and systems for a fixed price.

As a licensing agreement, franchising is bound by various legal documents and considerations to ensure the smooth operation of the business. It starts with a Franchise Agreement (FA) document - the paper that specifies all the duties of the franchisor and the franchisee, including all information in terms of duration and the provisions.

Franchising is just temporary in nature; hence, the FA should include the Terms of Agreement. Here, the franchisee must know the type of business relationship he/she agrees with the franchisor. Moreover, the FA must include the duration of their agreement, the renewal period, the overall investment amount and fees, training and support, purchase of products, territory, and the termination of the contract.

In most franchises in the Philippines, franchisees prefer a corporate business model since it is ideal having a separate identity from its shareholders. Businesses with corporate models often have varied nature of business ranging from the food industry such as Jollibee and McDonald's to the oil conglomerates like Shell and Petron.

Types of Franchising Business

There are three common types of franchising business: product franchising, manufacturing franchising, and business format franchising.

- ***Product Franchising (Trade Name Franchising)***

In this type of franchise, the franchisor grants every franchisee the right to sell its products and use its trademarks for a fee but without any method of doing the business. Common examples are car dealerships and service station businesses.

- ***Manufacturing Franchising***

In this type of franchise, the franchisee does not only have the right to sell the products but also has the right to manufacture the product following the manufacturing guidelines. An example is the food and beverage company, Coca-Cola. The franchisor only supplies the syrup ingredients to soft drink bottlers (franchisee) who then proceeds to mix, bottle, and distribute the final product.

- ***Business Format Franchising***

In a business format franchise, the franchisor does not only allow the distribution of the products but also gives franchisees the right to the franchisor's business concept or model.

Here, the franchisor gives the franchisee access to its overall business methodology, This could also include providing training,

marketing, and supply of needed equipment and materials depending on the agreement.

An excellent example of this is the food cart franchise. This has now become a trend in the Philippine market and is a very lucrative business since Filipinos love food. A food cart franchise is the choice of inspiring entrepreneurs because of its promising low initial investment and high returns in the long run.

Why franchise a business?

There are many reasons why you should franchise business. Simplified, the idea is that it allows you to manage a business that has lower risks of failing than start-ups.

Here are other reasons why you must consider franchising as an option:

Evident collaboration - You are always assured that the franchisor is there for you to succeed.

It offers a better chance to succeed - As said earlier, a franchise business has low risks since it is well-established already

Owners get freedom factors - Every franchisee considers flexibility, money, and status before starting a franchise. This gives

them the freedom to choose if it suits them or not at a specified period.

Happy franchise owners make more money - As the business grows, the franchisee also earns well.

II. Interesting Facts in Franchising

If there is one thing that must keep you excited about franchising, it is the fact that you can be the boss at all costs. There are many interesting facts in franchising, and here are some for you.

In the local arena, the Philippine Franchise Association (PFA), the face of franchising in the Philippines, defines franchising as the method of practicing and using another's business concept. It is a growing relationship in which the franchisee is granted the right to market a product or service under a marketing plan or a system that uses the trademark, name/brand, logo, and advertising owned by the franchisor.

Franchising consultants and associations have organized themselves to boost the industry via mounting franchising expos that highlight consultancy, business opportunities, introducing and identifying franchising trends - to promote the success of homegrown and international brands.

The PFA, for one, promotes growth in the industry by churning out programs that will open opportunities for expansion of Philippine franchisees here and abroad by assisting micro, small, and medium enterprises (MSMEs).

Moreover, the premier franchise association promotes cream of the crop Philippine franchisees to the international market and promotes the Philippines as good soil for investment for top international franchise brands. Members of this organization will be assisted in their franchising endeavors.

Another organization that is under PFA is the Filipino International Franchise Association (FIFA), which are both members of the World Franchise Consultants.

Check this PFA's guide to franchising featuring its challenges.

- **Working Within the System**

People who have difficulty following directions or who dislike working within a system may find franchising extremely frustrating. Conformity to the franchise system is critical if consistency among franchises is to be maintained.

- **The Risk**

Because you own the business, you, to a great extent, determine the success of your venture. The franchisor may have a great

program and a respected name, but in the final analysis, much of the risk is in your hands.

- **Working with the Franchise System**

Get to know the franchise system through the following methods.

- Visit the corporate headquarters. Seek to get a feel for the staff and how smoothly the operations run.
- Talk to other franchisees. Ask what their relationship with the franchisor like.
- Read as much about the franchise as possible.

- **False Expectations**

Franchising, like any other business, requires tremendous time, initiative and industry. Obtain from the franchisor a realistic picture as possible as to what is required in operating that particular franchise.

- **Managing the Business**

Some individuals are more prepared to manage a business than others. They have some business experience and have learned to get along well with people. Other individuals may find that managing a franchise is a tremendous burden. You must honestly assess your preparation to run a business. If you find that you have

little or no experience, you may want to seek special assistance from the franchisor in the business management.

III. Why Franchise in the Philippines? (Success Rate and Difference from Independent Business)

Unknown to many, the Philippine franchise business is booming. In the latest data from the PFA, the country's franchising industry is expected to have an increase of a whopping 25% to \$31 billion this year attributed to the strong economic growth of the Philippines.

Dubbed as the franchising hub in Asia, there are various benefits associated with owning a franchise. It is no wonder Filipino young professionals are so drawn into its concepts.

Here are some of the benefits of franchising:

- **Lower Risks**

Opting to franchise a business is the best alternative for many franchisees because it has a lower risk of failure than a start-up company or independent business.

- **Established Business**

In franchising, you are assured that the products are already sold successfully in the market. Compared to an independent business

that starts from scratch, a franchise is already established and has been tested in the market, facing obstacles that could have possibly make the business go down.

- **Experienced Franchisor**

There is much you can learn in franchising given that every franchisor has been working in the business for years already. The franchisor's management experience and team increase the success of the business.

- **Group Purchasing Power**

Franchisors always have ways to obtain lower-cost goods and supplies. These lower costs result from the group purchasing power of all franchises. Hence, to protect this benefit, most franchise agreements restrict franchisees from purchasing goods and supplies through other sources.

- **Name Recognition**

Established franchises can offer regional, national, or even international name recognition in the market. For example, engaging in a top Philippine franchise such as Jollibee can make you gain international attention because of its vast network and popularity.

- **Efficient Operation and Management Assistance**

Franchisors are responsible for making efficient workflows in the business. They discover operating and management efficiencies, including quality control services that benefit new franchisees. Moreover, a franchisor provides management assistance to a franchisee. Mostly, it includes accounting procedures, personnel management, facility management, etc.

- **Marketing Assistance**

Every franchisor typically offers several marketing advantages. It may include preparing and paying for the development of professional advertising campaigns, widening of regional or national marketing, and developing effective marketing programs for a local area.

- **Proven System of Operation**

Lastly, an attractive feature of most franchises in the Philippines is the proven system of operation. It is the type of system that is unique to the franchisor since he/she developed it. A franchisor with many franchisees will typically have a highly refined system based on the entire experience of all these operations.

Franchising Success Rate

With most of the available franchises having proven business models, the success rate of franchising in the Philippines has reached 90%. This percentage is based on PFA's latest statistical

data, citing that this is better than the retailing business with only a 25% success rate.

However, while this fact drives aspiring entrepreneurs to dive into the business, one must still weigh the possibility of failing in this undertaking. This part is usually the 10% unspoken truth about franchising and the percentage that shatters dreams of franchisees who failed to make it on top.

Independent Business vs. Franchising

Going back, there is nothing wrong with having an independent business. Since both independent and franchise business has pros and cons, it is necessary to have a thorough research before investing your money, time, and efforts.

Here's a quick comparison of the two:

	Independent Business	Franchising
Ownership Model	Independent business owners don't have the security of knowing their product lines and testing it if it's optimized in the marketplace is a challenge.	Franchise owners don't have the freedom to change their products or services based on their desires or changing market conditions.
Cost	Independent business owners are likely to have higher investment costs to buy and operate their business, but they also have more control over the investment.	Franchise business buyers typically have lower total investment costs but need to fulfill the obligations set by franchisors.
Brand Recognition	Unless the independent business seller has proactively cultivated the brand, it's unlikely that the business will enjoy the brand recognition that comes with standard franchise business opportunities.	Franchise buyers have an advantage over independent business owners when it comes to brand recognition
Operational Resources	Independent business owners, on the other hand, typically have to go it alone.	Franchise businesses tend to be popular with buyers who lack extensive business or industry experience.

IV. Why choose a franchise over other investments

Nowadays, Filipinos are drawn into various forms of investments. Everyone has plenty of options to consider, ranging from the real estate properties (condos, house and lot, apartments, etc.), stock market, mutual funds, unit investment trust fund (UITF), start-ups, and franchise business. However, choosing the best one for you needs a rational decision to avoid failure.

Statistical data shows that the Philippines has been the new hub of franchises in Asia. This achievement is mainly attributed to its high success rate in the past years, which means more and more businesses now offers franchising options to Filipinos. This is particularly true for the middle class and millennials. In return, this readies everyone towards their road to financial success in the next years.

The key to this success is understanding franchising benefits as a long-term investment rather than a short one. Hence, it is essential to determine whether this investment falls under a long or short-term period by understanding its details.

Understanding Long-Term Investment

According to Wealth Pilgrim, the best definition of a long-term investment is something that can give you a higher chance of maximizing your returns over 10 years as compared to other alternatives available in the market.

Let us have an example. Many people think about life insurance when talking about long-term investment. This is because paying monthly premiums for a certain period assures them of getting more than what they paid for after a certain number of years. This is the same thought you should think about franchising and why it is a new way of long-term investment.

Practically, franchising gives you a business that will start showing results after a specific timeframe. The usual goal is to get your capital and generate income, but this has changed over time because establishing the credibility of the business and its name is now very important for franchisees too. Market recognition is a brand factor, and this influences franchise businesses too.

Franchising: A New Long-Term Investment

Now, let us apply the concept of long-term investment in the franchising matrix. As mentioned, a franchise enables you to grow money over time by making you invest a capital that will mature after a specified timeframe.

While most people might be enticed with having their capital money returned within a two to six-month period, the return on investment (ROI) in franchising won't happen that fast. Hence, the idea of a long-term plan.

Knowing this ROI fact ahead of time will make you feel at ease and focus on your business. Keep up with the pace and do your best to learn the craft of your chosen franchise business. This way, you will gain independence to work on your own and get minimal supervision from your franchisor.

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