

WHAT IS FRANCHISING?

Franchising refers to the method of practicing and using another's perfected business concept. In a franchise relationship, the franchisee is granted the right to market a product or service under a marketing plan or a system that uses the trademark, name, logo and advertising owned by the franchisor.

What are the different types of franchising?

There are two different types of franchising – product franchising and business format franchising.

1. Product Franchising

Product franchising, also known as trade name franchising, is that type of franchising wherein a manufacturer grants a franchisee the right to sell its products, but with no method of doing business.

Examples of this type of franchising are car dealerships and service stations.

2. Business Format Franchising

The business format franchising, also identified as a name and process franchise, features a broader and ongoing relationship between the franchisor and the franchisee, wherein aside from granting the right to use the name and market the products and services of the franchisor, the franchisee is also provided a complete plan for managing and operating the business – a transfer of the proven way of doing business that has been developed by the franchisor.

This plan often includes a full range of services, including site selection, training, product supply, marketing plans and even assistance in obtaining financing.

All of the franchisor's operating systems, technical expertise, marketing systems, training systems, management methods and essentially all relevant information, are transferred to the franchisee.

Modern day franchising is primarily in the business format mode, accounting for around 90% of franchise businesses worldwide. PFA is an association of franchisors who are into business format franchising.

THE VOICE OF PHILIPPINE FRANCHISING

The *Philippine Franchise Association (PFA)* is the voluntary self-regulating body for franchising in the Philippines. It is the country's pioneer and largest franchise association with members ranging from micro to large, both homegrown and international involved in food, retail, services and other types of businesses.

PFA members are bound by the Fair Franchising Standards (FFS), the Association's code of ethics, which exhorts members to practice transparency and fairness in the conduct of sale of their franchises. PFA is guided by its mission to promote franchising as a tool for economic development and nation-building, through enterprise development and employment generation. Through the years, it has become an important contributor to the Philippine economy and will continue to be an economic growth engine.

PFA envisions the Philippines as the "Center for Franchise Development in Asia" by working for an enabling environment that will promote the growth and success of international and homegrown franchises and make the Philippines an ideal regional headquarters for international franchises operating in the Asia-Pacific. PFA is also committed to creating programs that will open opportunities for the expansion of Philippine franchises domestically and overseas by assisting micro, small, and medium enterprises (MSMEs), including the development of incubation centers where highly franchiseable concepts can be introduced to the mainstream market.

Recently, PFA was re-appointed Secretariat of the Asia Pacific Franchise Confederation (APFC) and will continue to promote franchising as a tool for regional economic cooperation and integration. The Association was also elected as one of the members of the Working Committee of the World Franchise Council (WFC), whose task is to create activities that will further the agenda of the said international body.

A proud member of



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Find out how.

 **PHILIPPINE FRANCHISE ASSOCIATION**
CREATING Enterprises. GENERATING Jobs. **1996**

WHAT ARE THE ADVANTAGES AND CHALLENGES OF FRANCHISING?

Advantages

- **High success rate** - A franchise business comes with a reduced calculated risk because it is a business model based on proven ideas and implementation.
- **Recognized brand and trademark** - The powerful brand names that your franchise carry will guarantee your success.
- **You are not alone** - Franchisors discover and perfect operating and management efficiencies that they pass on to their franchisees. These are designed either to help a franchisee overcome his lack of experience in running a business, or polish an acquired business sense.
- **Ease in financing / Re-saleability of the franchise** - Businesses with high success rates get nods for loans from banks and financial institutions. Moreover, a good franchise is an appreciating asset, thus maintaining its re-saleability at all times.
- **Huge profit** - Through the franchisors, obtaining lower-cost materials and supplies is possible.

Challenges

- **Control** - As franchising involves the use of a proven business expertise, trademark, knowledge and training, the franchisee is required to follow the system.
- **On-going costs** - Aside from the franchise fee and royalty, franchisees pay a certain percentage of their franchisees' revenues to the franchisor each month. Additional fees for services provided, such as advertising costs, are also charged regularly to franchisees.
- **Failed expectations** - Franchisors can destroy its franchisees by failing to give ample support or by squeezing them too aggressively for profits. On the other hand, franchisees who tend to be lax in adhering to franchise agreements create dents on the established system, later on creating damage to the business or the brand.

WHAT IS A GOOD FRANCHISE BUSINESS?

- **Unique** - A fresh or unique concept that has the potential to expand nationally, and even internationally.
- **Profitability** - The business must be consistently profitable.
- **Systematized** - The business operating systems should be polished and efficient. These systems and procedures should be in manual form.
- **Training** - The transfer of knowledge through training should be relatively easy for others.
- **Excellent margins** - The profit margins built into the concept should be viable enough that every franchisee who adheres to the franchise system can realize an attractive Return on Investment.

ARE YOU FRANCHISEE MATERIAL?

A good franchisee is an important part of a successful franchise chain. Evaluate your ability to be a good franchisee with these qualities:

- **Avid learner** - Someone eager to learn will be receptive to the training and knowledge a franchisor will impart.
- **Effective communicator** - A franchisee with good communication skills will be effective in conveying their thoughts and ideas to different individuals in their course of work.

• **Ample experience** - General business skills, such as marketing, sales or administrative expertise, will come in handy for a franchisee.

• **Financially capable** - The required money should be complemented with proper financial planning to run the business until it breaks even.

• **Awareness of the brand** - A prospective franchisee's ample knowledge about the product or a service indicates whether he is really serious in getting a franchise or not.

• **Open to new ideas** - A good franchisee must be open to new ideas in order to make it easy for the franchisor to introduce changes in the system that can be beneficial for both of them.

• **Ready to follow** - This is important in maintaining the proven business system developed by the franchisor.

• **Original thinkers** - Though it's necessary that a franchisee be a good follower, he should also be able to think for himself. However, it must be made clear that franchisors are to be consulted first at every stage of introducing a new change in the system.

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WHAT SHOULD I CONSIDER BEFORE BUYING A FRANCHISE?

1. Ask yourself why you want to own a franchise.
2. Begin the search. Look for opportunities that are in harmony with you and that greatly interests you.
3. Do your own research:
 - Have a complete understanding of the business.
 - Check on the business experience and track record of the franchisor.
 - Check your personal resources - experience in running the business, the hours and personal commitment to run the franchise; and, how much money is to be invested.
 - Determine the terms and conditions of the franchise agreement.
 - Get information on the franchise by visiting stores and interviewing existing franchisees.
 - Check on necessary government and other related permits.
4. Concept - Look into the product or service and discern what makes it stand out among other businesses.
5. Location, location, location - Ask about the territory rights. Make sure that you get a good site selection.

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THE FRANCHISE AGREEMENT

The Franchise Agreement (FA) is the legal document which details the rights and obligations of the franchisor and the franchisee, including the length of term, the start and end periods of the agreement, the renewal provisions and the end of the contract.

What is included in the Franchise Agreement?

Terms of Agreement - The FA should specify how long the agreement will last. After the appointed period, the franchise is considered null and void.

Renewal - Renewal periods grant the franchisor the chance to review the FA thus enabling him to decide whether to renew the agreement or not. The franchisee's good performance is the most common of all criteria. However, a renewal does not guarantee the retention of the original terms and conditions of the agreement. If applicable, a renewal fee is also charged by the franchisor.

Investment Amount and Fees - This explains the total investment cost and its inclusions, as well as the date a franchisee is to be paid. Included are:

Franchise fees - The initial franchise fee, which may be non-refundable, is paid at the start of a franchise relationship thus giving the franchisee the right to engage in the business using the franchisor's name and business system.

Royalties - Royalties are usually a percentage of the franchisee's sales and are typically paid weekly, biweekly or monthly.

Marketing contribution - System-wide marketing contributions are also based on the percentage of franchisee's sales.

Training and Support - The FA should state the kind of training and support the franchisor will provide.

Purchase of Products - Products and supplies used in the franchise system should maintain consistency, hence a detailed list of suppliers accredited by the franchisor is provided in the Operations Manual.

Territory - The Territory determines the geographical boundaries a franchisee may operate, or within which no other unit of the franchisor's businesses may compete.

Termination - This explains the grounds for termination of the contract. In some cases, violations of such conditions may be remedied, but if repeated over time, such may lead to termination of the contract.



Agencies to go to for help in Franchise Business:

1. Philippine Franchise Association (PFA)

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Fax: (+632) 687-0635
Mobile: 09178320732
E-mail: pfa@pfa.org.ph
Website: www.pfa.org.ph

2. DTI - Bureau of Trade Regulation and Consumer Protection

2/F Trade and Industry Building
361 Sen. Gil Puyat Avenue, Makati City
Tel: (+632) 751-0384 loc. 2221-2229
Fax: (+632) 890-4949
E-mail: btnc@dti.gov.ph

3. Securities and Exchange Commission (SEC)

SEC Building, EDSA, Greenhills, Mandaluyong City
Tel: (+632) 726-0931 to 39
Fax: (+632) 725-5293