

Franchises for Farms

Introduction

If you are interested in starting your own business, purchasing a franchise could be an option worth considering. The term franchising has been used to describe many different types of business relationships including where a person is licensed to sell a product, where a person is a distributor of a product or where a person is an agent for a particular product. The more popular definition is where one person (the franchisor) gives permission to another person (the franchisee) to use the franchisor's trade name and business system in return for an initial payment plus further regular payments usually based on turnover. Franchises are available for a wide range of products and services and the market is set to grow and become more diverse. There are advantages / disadvantages of opting for a franchise as against using your own idea or developing your own product or service:

Advantages

- Lower risk – using a ready made / proven business idea, service or product
- Lower costs – marketing, training, product development etc., normally provided by the franchisor
- Faster start up – can be up and running very quickly
- Can choose a franchise that suits your particular circumstances and resources

Disadvantages

- You will have to hand over some of your hard earned profit to the franchisor
- You will be working to an agreement with some loss of control or restrictions on how you operate the business

What is involved

- Identifying a suitable franchise – selecting a product or service that you will be comfortable selling and a product or service that will sell well in your area
- Drawing up an agreement – agreeing financial and other terms including marketing and training backup
- Starting up the business

Franchise opportunities

It can be difficult to identify the right franchise from the hundreds or even thousands available.

- Have a look at what is available
- What general area appeals to you – machinery, food, beauty products, landscaping / garden, finance, high tech equipment etc.,
- What would suit your particular resources – farm, buildings, amount of free time, available skills / training / experience within the family
- What product or service would sell well in your catchment area



Fact Sheet No. 51
May 2006

This is one of a series of fact sheets on income generating activities.

All fact sheets are available in the Advisory Section of the Teagasc Website
www.teagasc.ie

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Teagasc Fact Sheets present a brief overview of a topic. Further detailed advice should always be sought from relevant sources.

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- Do extensive background research – has the product or company selling the franchise a good track record
 - Seek advice – Teagasc, financial institutions etc.

The internet is a good source of franchise ideas, information and advice. Useful sites include:

- www.franchiseoptions.ie
- www.irishfranchiseassociation.com
- www.thebfa.org (British Franchise Association)

Making a decision / drawing up an agreement

When you have narrowed down your options, financial and non-financial details become critically important when making a final decision

- What are the terms being offered by the franchisor?
- Is the venture financially viable? – preliminary budgets / cash flows
- Are you fully aware of everything that is involved?
- If possible talk to existing franchisees
- Seek advice – talk to your accountant / financial institution.
- Draw up a business plan for the chosen option
- Have a solicitor examine the contract of agreement
- Consider and have a contingency plan for the possibility that the venture may not work out as well as you thought – sales lower than expected, too much time involved etc.

Starting up the business

Some general points to bear in mind include:

- Operate to a business plan - Teagasc run a number of courses throughout the year on starting up your own business and included in this is how to develop a business plan. See www.teagasc.ie/startingyourownbusiness
- Keep the business separate from the farm or other sources of household income – it has to stand on its own
- Continually monitor performance

Establishment Costs and Profit Margins

Normally a franchisor will require an up front, once-off fee for granting an exclusive ‘territory’ for a specific time period. Subsequently the franchisee will have to pay an annual fee typically a percentage of turnover. Other establishment costs will depend on the business. Some ventures will require relatively little start-up costs – a suitable office, a car, clerical backup etc. may already be available and very little working capital may be required. Other businesses will require substantial start-up costs.

As with any business the final profit margin will depend on sales, cost of capital, running costs etc. A business plan including detailed projected cash flows is essential.

Developing your own franchise

For those with an existing business or genuine business idea, there is the possibility of becoming the ‘franchisor’ or selling the concept to others. The advantage is that it facilitates expansion of the business without much of the associated costs or risk.