

THE BUSINESS OF BOOKKEEPING

The Franchise Option



THE FRANCHISE OPTION

Introduction

The Bookkeeping profession and the business owners of bookkeeping businesses are evolving. Whether you are a new entrant into the profession or if you are in practice looking to boost your bookkeeping business, there will be choices presented to you. Going it alone, forming partnerships with like-minded bookkeepers or purchasing an existing bookkeeping firm are all options that can be considered. Many of us kick around the idea of opening our own business from time to time. It can seem like a great idea on the surface. You get to be your own boss, make your own decisions, and hopefully become very wealthy if everything goes right. However, the next wave of thoughts can bring you back to reality. Starting a business can be very costly, take up all your time, and there is real possibility that it fails. Opening a franchise business can be a good alternative to going into business all on your own. You'll follow a plan that has already proven to be successful and have on-going support from the franchisor.

It is our view that the Business Owners Collective is a perfect illustration of the value of discovering your best option for moving forward in your career or business: the benefit is being able to 'speak' to business owners (you) about the challenges facing your business and your clients, knowing that the – to borrow from an old cliché – the glass is half-full, replete of opportunity to build your business. Our mission is to offer insights and actionable advice. For more read:

www.bookkeepershub.com.au/boc

as well as in guides on our resurces page

(www.bookkeepershub.com.au/free-reports/)

*To your success,
Morris Kaplan, MBA*

Co-Founder, Business Owners Collective

DISCOVERY

Starting up a bookkeeping practice is a great pathway to independence and profitability. Yet there is more than one way to start and operate your own bookkeeping business. Going down the franchise route is one choice but considering the franchise route is a significant decision for a burgeoning start up. Here we examine the pros and cons of joining a franchise.

What is a franchise?

Franchising is one of Australia's fastest-growing business sectors, worth an estimated \$150 billion a year. There are around 850 different franchises with more than 60,000 outlets.

When you buy a franchise, you buy into an established network with an established name and established systems. Franchising relies on the principle that there is strength in numbers: being part of a larger group allows you to benefit from a strong brand and economies of scale (this means you get better deals because there are more of you).

The 'franchise' is actually an agreement where the parent company (the franchisor) sells the legal right to use its brand name and business concept to an individual operator (the franchisee). The franchisee pays an initial fee and an ongoing royalty for the right to conduct business under the name of the franchisor.

A franchise or an independent operation?

Franchise businesses are, in business model terms 'turn-key' businesses; like the McDonalds franchise system. They have both advantages and disadvantages to the independently minded businesses. The greatest advantage is that they do have a track record of sales, profits and systems. The bad thing is that they can have an entry cost higher than the cost of establishing your own practice.

Let's list some facts about franchising:

- ▶ Franchising allows expansion/growth of a proven concept and method of operation. It's a turnkey business and ongoing training and support.
- ▶ Franchisees cannot be successful unless the franchisor is successful and a franchisor cannot succeed without successful franchisees—they help sell franchises and can take the franchise organisation to new levels of growth.
- ▶ Franchisees own their own business (making the day-to-day decisions yourself) operating under the franchisor brand, trademarks, marketing systems, successful methods of operation, advertising, training, management and assistance--opportunity to succeed as a business owner.
- ▶ There are situations where there is a lack of adequate support, lack of franchise systems, inadequate ops manuals, lack of strategic planning

Fact-finding

It won't be difficult to get opinions about franchise systems since existing franchisees are always willing to share their opinion with any prospective franchisee. The best source of information, which is close to the pulse, comes from existing franchisees. You will know immediately whether the chain you are considering is worthwhile simply by gauging overall sentiment.

A more recent entrant into the Australian franchise system is BookBiz, a Perth-based bookkeeping franchise group which also operates in the Eastern states. Headed by Martine Hoosen, the group places a strong focus on the initial recruitment of franchisees. Martine notes that not all people are natural franchise owners because not all adapt to being business owners. She says 'Becoming a franchisee is not about buying a job; it's business. Opportunities abound.'

Case studies

There are technical skills required as a bookkeeper but there is a need for a business mindset too. As pointed out by Martine Hoosen, the bookkeeping profession is rapidly evolving and this presents both challenges and opportunities. 'It is my view that specialisation for example can deliver benefits to the bookkeeping franchisee. Consider for example the hospitality sector.'

'Business owners in the sector do not always have a clear understanding of cost of goods sold and the importance of monitoring percentage contributions of labour, overheads, food etc. As a bookkeeper you have the opportunity to be proactive.'

'Law firms too are evolving where there is an increasing emphasis on technology and software. FilePro, a legal software platform for sole practitioners to large law firms – including case, matters, and document management; accounting; timekeeping is a great example.'

'You can become expert at a few things and be able to save time and money both for the firm and the client.'

Sandie Menzies co-founder of franchise system Shoebox Accounting says, of the advantages of the Shoebox franchise system, that it offers the franchisee a proven business model. 'We have been in business a number of years and all our franchisees are very satisfied with their decision to buy into Shoebox Bookkeeping.'

'They don't have to worry about new clients as we have a broad marketing program that attracts business customer which then flow to the franchisees.'

'Though our efficiencies and we have been able to optimise workflow which benefits the franchisee. The fixed fee basis enables the franchisee to earn a higher hourly rate than what is generally charged by independent bookkeepers.'

'There is no doubt that one of the big advantage of being in a franchise it's the flexibility around working hours; they can work from home and the support we give in terms of keeping up with changes in the industry.'

There are significant threats facing independent bookkeepers such as accounting firms moving into the bookkeeping space. Being part of a progressive franchise system is an effective way of being shielded by the changes.'

The benefits of buying a franchise

One of the great advantages of joining a franchise system as a franchisee is that you are given proven templates by which to operate your business. For many starting out in small business, the safety net of a franchise can be irresistible. No doubt, the success rate of franchisee businesses compared to independent operators speaks for itself: over 80% survive their first 18 months of operation. A key advantage for a recent entrant to the industry is that leads are provided to the franchisee based on marketing efforts of the franchise system. Jims is a great example of

this which has translated its business model where a central call centre handles all inbound calls for prospective buyers/customers and distributes the leads to the relevant operator according to geographic location.

Another advantage over the independent operator is that a good franchise system can bring to table the collective mind and skills of a number of professions critical to success. These have been honed over many years and proven to work. In other words, a well-structured franchise system is a blueprint for a franchisee's success.

In short:

1. Limited risk

Starting a franchise can be much less risky than pursuing your own business idea. If a franchisor is opening new locations with new franchisees, their business is likely doing well. Furthermore, the franchisor probably employs smart people who have analyzed and weighed the risk versus benefit of growth.

2. A clear vision of the business

You might have an idea of how you want your bookkeeping business to like but only a vague idea of how it would operate for example from a marketing perspective. You don't have the same guesswork when you're preparing to open a franchise business. You'll be given directions on how to operate, so much of the trial and error new businesses go through will be avoided.

3. Insight into startup costs

Franchisees are given insight into startup costs. The franchisor must include initial fees and investment costs in the documentation they present to potential franchisees.

4. Help selecting a location

While virtual bookkeeping is becoming ubiquitous, it is important to have a sense

of the available market in your area, simply because local providers are often given priority by a prospective clients. Most franchisors have done analysis for a given region (suburb/town/region) in terms of relevant businesses.

5. Guidance from the franchisor

Once you sign on to become a franchisee, the franchisor is going to do everything they can to help you succeed. They'll not only tell you the best way to operate, they'll likely also provide guidance that can help you become a better business owner

6. Offer training

Franchisees likely want to new skills and in-person or webinar-based sessions will be essential for training in management, finances, or other topics. That could also include training on financial recordkeeping or advising on what technology to use. It's in the franchisor's best interest to help all their franchisees thrive. You get many of the advantages of owning your own business, plus on-going support from the franchise company. A good franchise system will provide access to a business development professional (coach) to support the franchisee discussing business plans, goals and the like.

Are you suited to own a franchise?

Franchise systems do not suit an entrepreneurial type person. If control is a big issue for you and you love doing things your own way, then a franchise may not be right for you either.

Take a good hard look at yourself in the mirror. Are you an enthusiastic decision maker? Are you a positive person?

Are you prepared to work hard? Can you handle success?

If you aren't confident enough to start your own business from scratch, then a franchise may be the solution.

The greatest risk you take when buying a franchise is to rush in without doing enough research.

Successful franchisees are people with some or all of the following attributes:

Previous business experience

Who understand risk management and have insurance in place

Who understand that sales don't mean profits

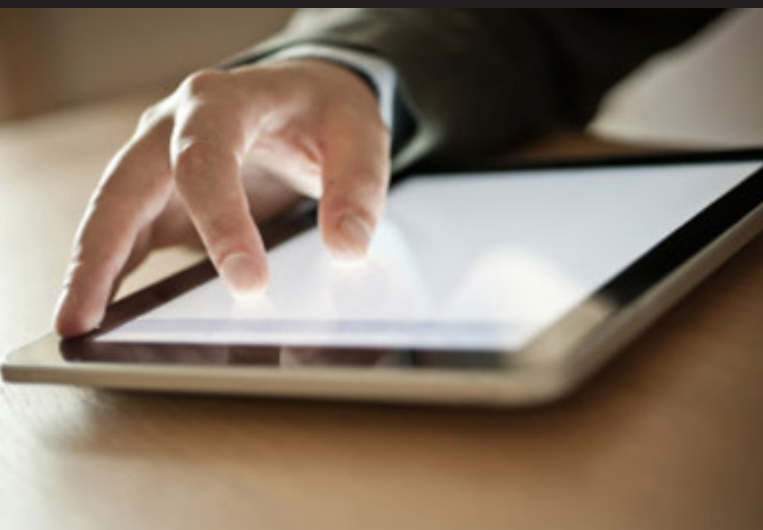
Who are not necessarily using their own home as business collateral

Who understand issues around staff, cash flow, accounting, legal and compliance business experience, who will extend and reinforce their brand?

People need to look behind 'headline' figures and beyond the first franchise system that catches their eye to make sure they're putting their money into something that will survive and be profitable. You can't accept things at face value; there may be more information you need to get the full picture.

How to evaluate a franchise and/or a vendor

You need to be thorough and ask some tough questions. There are skills that we can train for and there are some like work ethic, communications skills, personality and being a team player that you can't train for. It would be wise for an intending buyer to speak to other franchise owners – at least two or three.



Issues to consider

There are so many questions to ask when buying a franchise; which opportunity and system is right for you? Do you purchase an existing franchise business or establish a new one? Are existing franchisees happy? The advocacy of franchise owners is one of the most powerful indicators that a franchisor of choice. You want a franchisor focused on ensuring franchisees are maximising the performance and profitability of their outlets.



- ▶ **Promotion:** Many of the best franchisors maintain a high profile through their advertising and promotional activities. Advertising drives leads to the franchisee. Of course quality of lead matters and this will require a degree of due diligence.
- ▶ **Fees:** What initial investment is required? – In addition to franchise fees, the initial investment you'll have to make will need to be estimated. Generally, as a franchisor you will also pay a franchise fee, to cover the initial training and elements of the franchise package, and an ongoing management services fee. The franchisee will also contribute a national marketing levy to contribute to the national marketing initiatives
- ▶ **Autonomy issues:** you might be required to use a particular accounts package or software provider, but you might get preferential rates from those recommended suppliers. Franchisees will be required to follow a proven system and business model
- ▶ **Exiting:** The vast majority of franchise systems will not allow you to exit for a fee and trade under your own name with your previous clients and there will be strict post termination clauses.

Getting up and running

You will be provided with the tools and methodology that the franchisor has developed, but it's up to you to use them wisely.

Whether you go down the franchise route or brave it alone, success will only really come about through hard work and commitment.

Despite the added support of a franchise, it's certainly not an 'easy way out'. With a franchise you will be expected to put in the same level of effort, time and enthusiasm you would if going it alone.

Franchising checklist

- ▶ Obtain names of franchisees for you to interview
- ▶ How are existing franchisees going?
- ▶ How many franchisees are there?
- ▶ What are the plans for expansion and growth? What kind of training, education and support is provided?
- ▶ What are the renewal and termination; terms and conditions?
- ▶ Can I afford to buy the franchise?
- ▶ Am I comfortable with the franchise, their products, services, brand and image?
- ▶ What projections are available which confirm or fail to confirm your projections?
- ▶ What continuing services do you provide after the franchise business has commenced?
- ▶ Your involvement: what will happen if I do not like the franchise business? Upon what basis can I terminate the contract?
- ▶ Who will be my link with you after I have opened for business? Can I meet some of your staff?
- ▶ What help will I receive in local advertising and promotion?
- ▶ Get a copy of the Franchising Code of Conduct (You can download this from the Australian Consumer and Competition Commission site www.accc.gov.au or phone 1300 302 502). Read and re-read it. This code requires franchisors to disclose specific information about their business when entering into, renewing or extending a franchise agreement. This code is supported by the law and is administered by the ACCC, which will investigate any franchise complaints
- ▶ Franchisors are required to provide you with this at least 14 days before you enter into an agreement with them (but you should allow yourself much more time than this to fully read this document).

You can never do too much research or get too much independent legal and financial advice. Assess how much money you have available and your borrowing capacity. Do the figures on the start-up costs: the initial purchase price, the ongoing fees, the legal costs, a shop fit-out and purchasing stock. You want to be confident that the franchise business is reputable, financially strong and good at what they do.

While you may be tempted to skimp on professional advice, independent legal and accounting advice will save you money in the long run.

For more information on franchises and practice management you can download our Practice Guide 2016 and visit our Bookkeeping Business Owners Collective at www.bookkeepers.com.au/boc

ABOUT BUSINESS OWNERS COLLECTIVE

The Business Owners Collective ('BOC') is Australia and New Zealand's first alliance of bookkeepers who are also business owners with at least one employee. We believe business owners have unique needs that the profession does not cater for. Our mission is to support the business development of bookkeeping business owners through unique array of resources, programs and processes. Our mission is to help you develop the skill sets and practices to grow your business, grow your profits and the value of your business. Our methodology and resources are specifically designed to overcome the key challenges that bookkeeping businesses face.

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