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James Caan's tips on buying and managing your franchise

Entrepreneur and former star of BBC's *Dragons' Den*, James Caan exclusively shares his experience of running franchises to *The Franchise Magazine*

Franchising is a field close to my heart and my first foray into this dynamic sector was Humana International, an executive recruitment business. I grew the business from nothing to a successful global brand with 147 offices across 30 countries.

I would say the key lesson I learned from the experience is that franchising is predominantly about backing the right people. Who I always look for are individuals who have that passion, determination, conviction and unquestioning belief in themselves. I firmly believe that any successful business is a direct reflection of the people behind it. Now at my private equity company, Hamilton Bradshaw, I have continued to follow that mantra and 'invest in people'.

Selecting the right franchise

Firstly, I think it's crucial that you are passionate about the franchise sector you are going to invest in. I always find within my businesses, that the more enthusiasm people have about the products or services they are offering, the better chance they will have of succeeding.

When you are starting out, the initial research will give you an overview of what franchises are available in your field of expertise or interest. Think about what suits your needs – what are your personal goals and what time commitments can you offer? You should also carefully consider your financial status because you'll need funds upfront to start the franchise.

I recommend you meet a selection of franchisors and listen to their pitch. This is your opportunity to get a flavour for the brand culture. Spend time with them and focus on their background story. What are their motivations, how successful have they been so far and, importantly, gauge how well you would get on with them.

Don't skip the boring but crucial 'due diligence'

Once you have decided on the franchise, don't devote any more energy, time or money to it, until you've carried out thorough due diligence. There's no reason to take unnecessary risks if you do your homework – if it's not going to work, you need to find out sooner rather than later.

If you go into it blindly, you're taking unnecessary risks. I always say, one skill you need is to measure risk because – once you understand it, it no longer becomes a risk, it's a calculated decision.

Start off by examining whether the proposition is a genuine franchise business model or just a distributorship. Then evaluate all aspects of the franchising business, such as financials of already established franchises, franchisor's track record and brand recognition in the market. Analyse the size of the industry and market, the growth potential and competition. You also need to find out about the franchisor's network of partners and obviously the total cost of acquisition.

Take time to meet the head office staff and established franchise owners, as this

should provide you with a benchmark of what your own franchise could achieve.

What you should be looking for is a franchisor who is transparent. If at any point they don't want to disclose information, then be wary of their claims and status in the market.

Finalising the agreement

Establishing the terms and conditions of a franchise agreement is your last chance to voice any concerns and negotiate your terms. I would definitely recommend you hire a lawyer at this point. Due to the nature of franchising, the franchisor will always have the advantage when it comes to the agreement.

Firstly, you need to establish the exact identity of the 'opposing party', sometimes there may be a separate licence owner or a parent company. Other points to examine include licence duration, renewal options, training, franchisor's advertising support and territory limitations. In most cases management service fees are applied to gross revenues and not net profit, therefore, if your costs are not contained your net profit will suffer.

Finally, your franchisor should have some procedures in place to help you source the appropriate products, equipment and IT infrastructure.

Location, location, location

With any boutique business, location will have a substantial impact on the success



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of your franchise. An ideal location will increase footfall which, in turn, will impact your sales. Franchisors are usually supportive of property selection and they will help you with lease negotiations. When selecting the location and property, you should keep in mind the boutique visibility, accessibility, transport links, layout and the surrounding area.

Raising finance

As an entrepreneur and investor, raising finances is part of my daily business. When I was developing my recruitment company, Humana International, raising finances was a big focus. Before looking for support, you need to put some time into your pitch. Do some research on your potential audience so that you can tailor your pitch and touch on common interests. You need to develop a story line for your pitch, taking them through a journey but, most importantly, be confident about your numbers and memorise any vital facts about the business.

Manage your cash flow carefully

In the current economy, all businesses are being forced to cut luxuries and keep an objective view to managing finances. When my team analyse new investment

opportunities, they usually unearth around 20 per cent of, what I would call, 'nice-to-have' costs. Focus only on essential business costs and because this is a franchise, you must always keep in mind that a proportion of your revenue is going to your franchisor. On an operational level, you should focus on your client and supplier relationships. If the franchisor allows it, try negotiating payment terms with your suppliers and ask for early payment discounts. On the client side, you need to keep a watchful eye and be really firm with late-paying customers. Conversely you could reward new and

early-paying clients with discounts to help secure the relationship.

Growing your franchise

Growing your franchise will require a measured strategy, supported by a strong sales record and good timing. It is crucial to know all details of your market, its behaviour and where the potential for growth lies. Beware that any expansion will increase your costs and, for this reason, you must always be prepared to stop the growth plan if it isn't working out. I think any growing business, irrespective of type, has to be sales driven to realise their growth targets. In order to truly make an impact on the size of your franchise, you will have to be able to attract new business.

As the franchise owner, you need to assess whether you have the sufficient sales skills to achieve that, if not find someone who can. There are different options of expansion to consider, you can open a new outlet in a new location, you can buy an existing franchise or you can acquire a Master Franchise licence. You will have to demonstrate a credible track record in terms of running a financially viable franchise and your background will also have to show key leadership and managerial skills.

Lead your franchise to success

As your franchise expands and you employ more people, your responsibilities will change accordingly. You will need to

increase your focus on maintaining the brand culture, assigning mentors and developing a reporting structure. As part of the franchise agreement, you are required to maintain the culture in your franchise identical to that of the controlling brand.

It's important that you regularly communicate the brand culture to your

employees to get their buy-in, whether by weekly meetings or emails. Make sure you train them in accordance with franchisor's standards. Being realistic, you won't be able to train all your new staff, so start appointing mentors. At Hamilton Bradshaw, I have found it really valuable

to the business to appoint employees in mentoring roles to help more junior people. It needs someone experienced and confident about their skills, and ensure there are objectives set over a six or 12 month period.

James Caan has just launched *Business Secrets*, a business advice app. He shares his 30 years experience of successfully starting and growing businesses, together with his autobiography *The Real Deal*. Download the app from iTunes for free and make your franchise even more profitable.



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