

Research report for Bedshed Franchising

---

# Choosing between a franchise and an independent business: **The Experiences of Business Owners**

## Who is this research report for?

This report will benefit people going into business for the first time who are considering whether to purchase a franchise or a stand-alone business (or start a business from scratch).

Disclosure

This research was commissioned by Wrights PR on behalf of Bedshed. It was conducted by independent consultants Glide, according to a research design developed by Glide. Glide had no direct contact with Bedshed Franchising Pty Ltd and Bedshed Franchising Pty Ltd had no input into the writing of the report.

Methodology

This research is based on four in-depth interviews with current owners of Bedshed franchises, conducted mostly in November 2013.

Interviews were conducted by an experienced business researcher with qualifications in psychology and management experience in a wide range of businesses.

Interviews covered the pre-purchase decision, including concerns at the time, and compared these with actual experiences. They also explored advice that current franchisees would give to people considering a franchise now; in effect, what they would say to themselves if they could travel back to their time of purchase.

Also probed were the lessons they had learned, which they believed were essential to success as a franchisee.

Terminology

**Franchising** is a business system that allows independently owned outlets to trade under a central brand, with coordinated operations, so the outlets gain many of the advantages of being a much bigger business, but retain the benefits of owner-operation.

The **franchisor** owns the brand and the operating systems, which are licensed for use by multiple outlets. Typically the franchisor controls the products sold and other aspects of the business, especially its presentation and promotion. A good franchise should have well documented and proven business systems. Good franchisors provide ongoing training and other support to help franchisees grow.

**Franchisees** buy individual licenses to trade under the franchise brand, typically for a specific location or market and generally for a specified period of time.

**Due diligence** is a process for determining whether a business being purchased is likely to live up to expectations, based primarily on its past performance. Due diligence is usually thought of in terms of financial performance, which is of course critical but still only part of the picture of what small business owners usually look for. This research suggests that speaking to the owners of other related and similar businesses can be a very valuable due diligence tool.

Contents

Background . . . . . 4

Franchise versus independent versus start up . . . . . 4

Start-ups. . . . . 4

Buy an existing independent business . . . . . 4

Buy a franchise . . . . . 5

Franchising: the Australian way . . . . . 6

Factors of concern. . . . . 6

Money . . . . . 6

Skill set . . . . . 6

Marketing . . . . . 7

Support . . . . . 7

Decision trauma versus “get on with it”. . . . . 8

Personal goals . . . . . 8

Income . . . . . 8

Lifestyle . . . . . 9

Family . . . . . 9

A job versus a business. . . . . 9

Personality and franchise success . . . . . 10

People people . . . . . 10

Positive outlook . . . . . 10

Workers . . . . . 10

What actually happened (early experience in a franchise) . . . . . 11

Expected values confirmed . . . . . 11

Surprise values uncovered . . . . . 11

Social. . . . . 11

Lifestyle . . . . . 12

Identity . . . . . 12

Final tips from successful franchisees . . . . . 13

References . . . . . 14



## Executive summary

Buying a franchise in a proven brand with stable, satisfied franchisees is the lowest risk way into business ownership. This is especially true when there is no previous experience of business ownership.

For people whose primary concern is to establish a solid, stable income, a good franchise is the best option.

As with all business types, some will be better than others, but fortunately due diligence including talking with existing franchisees prior to purchase will expose most problems.

For the group researched here, the journey to becoming a successful franchise owner was surprisingly smooth, with no serious unexpected negatives – and some valuable, unexpected positives.

The experiences of this group suggest that missing skill sets can be compensated for, but that an ability to interact well with people is essential.

The strongest advice they would give to themselves, if they could send a message back to when they were considering a franchise, is – *just do it*.

In terms of choosing a franchise, available research suggests that larger and longer established franchises do better in tough times and have higher franchisee satisfaction.

Talking with other owners within the franchise network being considered is probably the most powerful form of due diligence as it directly addresses the question a buyer should ask, *will I be glad I did this?*



## Background

### Franchise versus independent versus start-up

You can get into business by:

- Starting something from scratch,
- Buying an existing independent business,
- Or by buying a franchise.

Each option has different pros and cons – and a different risk profile.

### Start-ups

Many people start new businesses from scratch; they register a name and get started.

Bankers, suppliers and business consultants all know from repeated experience that this approach has the highest failure rate.

There are no definitive statistics. An oft-quoted rule of thumb for small business failures is four in five, but there are no comprehensive statistics.

The problem is that new start-ups face the hardest part of their journey – getting going – when they have the lowest level of skills, contacts and practical business knowledge.

Start-ups are therefore best suited for people with a passion primarily for the product or service: people who have invented something, or who want to change the world.

For them, the high risk is an unavoidable part of pursuing their dream.

Most people however, while they want to do something they enjoy, place their primary value on earning a secure income.

### Buy an existing independent business

With thorough due diligence, buying an existing business poses a lower risk of failure.

In an existing enterprise, the core business model has been proven. You may be able to see several years of accounts. You don't have to build every system from scratch. There are already customers, maybe even staff who know how things work. You can see what you are buying.

For someone who first and foremost wants a secure income and a good lifestyle, buying a proven business is financially prudent.

Established independent businesses can still fail though, often through no fault of the owner. The reality is that more and more business sectors are being dominated by big suppliers. If you walk through a big shopping centre you can note that most of the shops are part of national brands. Independent operators are being squeezed out by big buying power, big promotions power and centralised efficiency.

There is also a risk in buying an independent business, that when you take over, the business may not live up to the glowing promises of the vendor. Even accountants' reports have a lot of leeway for interpretation.



## Buy a franchise

Buying a franchise in a successful brand is generally accepted to be the lowest-risk way into business, though available statistics are fragmented and some more extreme claims have to be questioned.

The UK-based *Which franchise?* comparison service states:

*It is a well known fact that less than 7% of franchise owners fail within the first three years, as compared to over 90% of new business start-ups.<sup>1</sup>*

Writing in *The Australian*, Morris Kaplan reports:

*Franchises have a higher success rate than most small businesses, and are typically more profitable from the outset.<sup>2</sup>*

The Australian website *InfoChoice.com.au* reports:

*...buying into a franchise improves the prospects of success for a fledgling business.<sup>3</sup>*

The ANZ's Small Business Hub states:

*Statistics show that franchises have a much lower failure rate than new business start-ups.<sup>4</sup>*

Writing in *My Small Business* in *The Age*, business writer Tony Featherstone says:

*There's no doubting the success of franchising. ...The franchising sector is clearly doing something right.<sup>5</sup>*

Franchises are also reported to resist recessions much better than other small and medium enterprises. Steve Wright, former executive director of the Franchise Council of Australia says the franchise sector as a whole has continued to perform strongly, averaging 7% to 8% growth, with the top 200 franchises in the country recording double-digit growth in both turnover and profitability.<sup>6</sup>



A 2010 survey by PricewaterhouseCoopers found that while some new and smaller franchises had suffered, major Australian franchises grew strongly during the GFC.

The report showed franchising to be outperforming the Australian economy during the GFC and highlighted strong optimism for ongoing growth.<sup>7</sup>

When PricewaterhouseCoopers repeated this survey for the 2012 reporting year, they found franchises continued to outperform the economy as a whole, with average revenue growth of 10% and further strong growth expectations.<sup>8</sup>

However, as with all business types, it is clear that not all franchises are created equal.

As one industry peak body puts it:

*...the benefits outlined above are based on the assumption that the franchise business being considered is being operated with worlds-best practices, and by a franchisor that genuinely has the interests and success of their franchisees at heart. Sadly, this is not always the case.<sup>9</sup>*

In summary, buying a franchise is the business option that most minimises risk and is most likely to lead to a stable, long term business returning a good income.

The downside can be reduced autonomy, as many aspects of the business will be run or controlled by the franchisor. Paradoxically, this division of work and reliance on centralised expertise is also part of what gives franchises their strength.



## Franchising: the Australian way

Although we may think of franchising as American, Australia is the world leader with three times as many franchises per capita as the US.<sup>10, 11</sup>

Of the franchises operating in Australia, 91% are home grown, not imported – and 28% of them are exporting.<sup>12</sup>

A 2012 survey conducted for the Franchise Council of Australia found:

- There are approximately 1,180 franchises in Australia<sup>15</sup>
- There are about 73,000 franchised business units<sup>15</sup>

- Sales turnover is estimated at \$131 billion<sup>15</sup>
- Franchising accounts for 14% of Australia's GDP<sup>13</sup>
- Direct employment in the franchise sector is over 400,000 people.<sup>15</sup>

This vibrant franchise sector is due at least in part to one of the most demanding legislative frameworks imposed on franchisors anywhere in the world. Over decades the Australian government has refined and expanded the legislative protections that franchisors must give to franchisees, making Australia possibly the best jurisdiction in the world in which to be a franchisee.

In summary, franchising is a strong part of the Australian economy and culture.

## Factors of concern

All respondents to this research said they knew they were taking a risk by going into business, but they felt that the risk was less in choosing a franchise.

## Money

Everyone acknowledged some concern about money, though it was not often the main factor. This may have been because their franchisor was able to give them reliable guidelines on capital needs.

## Skill set

Most of those interviewed were worried about their skill set, because they recognised there were areas they knew little about. The worry was the same, but the areas varied. For some it was financial control, for others it was bookkeeping, staff management or compliance with legislative requirements.

It's an early discovery of most people in business that the full skill set for a business owner is so wide and diverse, no one can master it all. Instead there is skill in knowing what to delegate to experts, what to apply your learning powers to and what not to stress over.

A good franchise will reduce the required skill set by handling some functions centrally, systematising others and providing training.



## Marketing

In this group of people buying existing franchises, most significant was what they did not remember worrying about: marketing and attracting customers.

For start-up businesses, marketing and sales are typically the very first concerns. And often marketing is the area where the new business owner has the least experience and expertise.

One of the core functions of a franchise however is usually marketing. A coordinated, well-resourced, professional campaign run by a franchisor should hands-down beat the kind of ad-hoc, shoestring, trial and error that most start-ups go through.

It was the experience of this group that being able to leave marketing to head office allowed them to focus more strongly on the core task of learning how to run a business and learning about their business.

## Support

When they were choosing a business, most respondents worried about support. What would they do if they got stuck? If they were struggling under the weight of it all, who could they turn to for practical help?

People who start businesses or buy independent businesses rarely think about this in advance (though they may think about it often later).

Perhaps then one of the defining characteristics of a person who will be successful in a franchise is that they realise in advance they won't be able to do it all and may need a hand.

The opposite – confidence that you know it all – is a danger in any business.

In a sales situation vendors may make all sorts of claims, especially about something so

ephemeral as “service” or support, so it was a concern to these buyers whether they would in fact receive the promised support.

The best way of assessing this in advance was reported to be talking with other owners in the same franchise chain, to test their experience of the level of ongoing support.





## Decision trauma versus “get on with it”

An interesting thing about this group was that they did not report a high level of decision trauma prior to making their decision.

Young entrepreneurs are often immune to self doubt (and have little to lose) but most business buyers are adults with something to lose, the result of years of hard work, and responsibilities that make them risk averse. When these people consider risking everything on their own start-up, they typically go through a stage of uncertainty and self doubt that often approaches trauma and may derail the whole process.

There were two factors that clearly helped this group make their decision with less stress.

One was the reduced risk of buying into a proven franchise, with an established mechanism for selling the business and getting at least most of their money back, if they found they didn't like it. The risk of catastrophe was judged to be lower.

The other was an attitude of “get on with it”. These people are doers. When asked what they would say to their younger, pre-business selves by way of advice, their responses included, “jump right in,” and “just do it.”

It's interesting to speculate how innate this attitude was and how much it has been reinforced by business experience. That they wanted to offer this advice to their pre-

business selves suggests that they recognise their “get on with it” attitude has grown – and that they wish they'd had more of it before.

Their deliberate advice to people contemplating a good franchise is clearly, *do it*.

## Personal goals

### Income

Respondents all put income at or close to the top of the list of what they were looking for.

They used words like secure, comfortable and reliable.

None were chasing mega-rich status or dreaming of overnight wealth. They had implicitly surrendered the one-in-a-million

dream of being the next Apple or Facebook for the more realistic and achievable goals of a comfortable, secure income: something more than they could make in a job.

Expected gains in the capital value of their business sometimes underpinned their retirement planning.

Opportunities for growth beyond the initial franchise, for example by owning multiple franchises or moving to a bigger operation within the network, were important as a longer-term pathway to subsequently greater wealth.

They noted that not all franchises permit multiple ownership and that this had been a factor in their decision.

In summary, all respondents had realistic income expectations that enabled them to focus on the lower-risk franchise option.





## Lifestyle

Most respondents reported a lifestyle goal of having more time to themselves and the resources to enjoy it – particularly travel.

This was not an outcome they achieved quickly, generally it took two to four years, but all respondents had made progress towards this goal and were happy with it.

A high level of overseas business travel, encouraged and supported by this particular franchise, contributed significantly to the lifestyle satisfaction of most respondents.

## Family

Employing and working with family (particularly adult children) was an important factor for some respondents. All of those who had continued with (and even expanded) family employment had settled on a differentiation of roles and even of work locations, so that each family member had a designated area of activity that was theirs, rather than there being a strict hierarchy of family members with top-down decision making.

## A job versus a business

Several respondents were explicitly aware of the difference between a franchise which was a “job” and a franchise which was a “business”.

Sole operator franchises – services like lawn-mowing and even some retail franchises – were seen as designed to support the franchisee or a franchisee couple, who would work full time in the business and perhaps make a good wage, but that the business would not earn enough to support management and still pay the owners.

As one respondent put it, “I wanted a business that would be big enough so I could have managers and I could take a step back.”

Several respondents were aware of this issue before they bought, even though the franchise was their first business, and this clearly guided their choice of franchise.

The point at which an owner could start to step back was seen as from five to ten staff.

Being able to step back (and take proper holidays) was a big factor in satisfaction of people’s lifestyle expectations.

It was also necessary to those respondents who wanted to expand to multiple franchises, increasing their income potential.

While this group had high awareness of the job versus business issue, this is probably not typical of the general population of people considering a business.

Explaining the issue is sound advice; understanding it may be a characteristic of success as a franchisee.



## Personality and franchise success

The successful franchisees interviewed for this research made up a fairly diverse group, with different life experiences prior to buying their franchise and different interests and lifestyle approaches.

They included, for example, a couple with no business experience, a former chartered accountant with a major firm and an experienced retail manager. There was a couple with two children working in the business, a couple with no children involved and a sole owner.

Some had adequate finance of their own to buy their franchise, others had to borrow.

All however shared some key characteristics.

## People people

Being good with people was recognised as a key to success. Franchisees have to manage staff, retain good staff and handle customers (especially unhappy ones).

This was seen as a core skill without which it might not be possible to succeed, at least in a mid-size, retail franchise.

## Positive outlook

Business always has ups and downs. There is always plenty to be depressed about, should a person be so inclined. These people are not. They are optimistic and convey their enthusiasm to others.

They are focused on their immediate tasks, on their part of the business world, and are keen to get things done and keep moving forward.

“Just get on with it” summed up their common attitude.

It is not clear from this research whether a positive attitude is critical to success, but certainly it enhanced overall satisfaction with the franchise.

## Workers

Lifestyle was an important goal, but all of these franchisees were willing – and expected – to work for their goals, including putting in a big effort in their early years.

Every one of them expected a learning curve and that expectation softened the reality of it.





Expected values confirmed

There were problems and setbacks, the GFC impacted everyone, but to a greater or lesser degree, they each got what they wanted and expected.

There are no available statistics to compare the frequency of unpleasant surprises in business, but consulting experience suggests that this complete lack of serious disasters over several years is exceptional. One potentially business destroying incident not related to the franchise structure – a serious fire – in fact turned out to be a practical demonstration of the strength and value of franchisor support, as the franchisor enabled a very rapid return to trading.

In summary, the overall positive consistency of this group of respondents' business experience can only be attributed to a strong franchise structure that sets the broad directions of each business and reduces the variability they encountered.

## Surprise values uncovered

## Social

This was not a value they had sought or expected pre-purchase, but it became a top-ranking benefit.





This development was encouraged by the particular franchisor having all franchisees work hands-on in the product procurement program, so the relationships were business based.

The relationships then expanded through the sharing of operational information and advice, franchisee to franchisee, and finally added social value, taking in franchisor staff as well as fellow franchisees.

Contrived social interaction alone might not have been so successful, but the value this purposive interaction and joint task work adds to the group in terms of cooperation, cohesion and reward is clearly significant.

## Lifestyle

This particular franchise has involved its franchisees basically as fellow importers from foreign suppliers and encouraged regular travel to visit suppliers. This has added an unexpectedly rewarding “business lifestyle” factor with some respondents clearly enjoying this purposive group travel perhaps more than they might enjoy an ordinary holiday. This is a big plus none of the respondents expected.

## Identity

These respondents are business owners. They employ, they create wealth and they support themselves and their families.

At an intellectual level of course they knew when they started that they were going to at least try to do that. However the deep

emotional satisfaction from the identity of being a successful business owner that was evident in the conversations of many respondents probably was not fully anticipated.



## Final tips from successful franchisees

Buying a business is always something of a leap into the unknown. That these successful franchisees experienced surprisingly low decision trauma must in part be due to their positive, action-oriented attitudes, who's strongest advice was, *just do it*.

Also critical was that when they were buying, most of them talked with existing franchisees, in some cases the previous owners of the franchise they bought but also including other owners. Some respondents were already familiar with the store they bought or with the franchise, through other connections.

While a vendor of course has a vested interest, respondents felt that other franchisees had no reason not to tell them the truth, warts and all. When what they were told was positive overall, they could proceed with more confidence and lower risk.

Their final advice in considering a franchise then must be, to talk informally with existing franchisees, who have no vested interest in the purchase.

It's an opportunity to really know what you are buying, that isn't available when reviewing a stand-alone business.

In terms of due diligence, the reports of several franchisees (where the impact of individual locations is averaged out) is possibly the single most reliable test that could be performed.

If the question is, *will I be glad I did this?* then the reports of those who have already done it must be the best test.





## References

1. [http://www.whichfranchise.com/feature\\_template.cfm?FeatureID=182](http://www.whichfranchise.com/feature_template.cfm?FeatureID=182)
2. <http://www.theaustralian.com.au/news/features/why-a-franchise-can-be-the-healthy-option/story-e6frgabx-1226534263613#sthash.EGSB5q4t.dpuf>
3. <http://www.infochoice.com.au/small-business/banking-loan/guides/pros-and-cons-of-franchising/32835/1/16>
4. Tips-on-buying-a-franchise\_1296013216.pdf published by ANZ bank's Small Business Hub, see [www.anz.com/franchising](http://www.anz.com/franchising)
5. <http://www.brisbanetimes.com.au/small-business/managing/blogs/the-venture/is-australia-too-franchised-20100809-11tya.html>
6. <http://www.theage.com.au/small-business/franchising/bucking-the-trend-franchises-going-strong-in-tough-times-20111108-1n54y.html#ixzz2mHYmxCof>
7. Reported in Franchising newsletter, <http://www.franchise.net.au/inspire/franchisee/franchising-in-2011>
8. Private Clients Franchise Sector Indicator Fourth Edition, PricewaterhouseCoopers, September, 2012
9. <http://www.sandwich.org.au/franchise-or-independent-business/>
10. *Franchise Nation* by Alice Pung, The Monthly, issue 35, June 2008
11. <http://www.ibisworld.com.au/industry/default.aspx?indid=1902>
12. Griffith University website, <http://www.franchise.edu.au/articles/research-reveals-franchise-sector-strong-through-downturn.html>
13. Smart Company newsletter, <http://www.smartcompany.com.au/growth/franchising/2454-.html>
14. Reported in Franchising newsletter, <http://www.franchise.net.au/inspire/franchisee/franchising-in-2011>
15. Franchising Australia 2012, Griffith University, 2012







Contact: Rod Parker  
Bedshed National Business Manager  
rparker@bedshed.com.au  
0419 494 480

This research was sponsored by Bedshed as a service to potential franchisees. Bedshed had no control over the research process or the writing of this report. For more information, visit [www.bedshed.com.au/franchising](http://www.bedshed.com.au/franchising)

