

5. What are the various frauds and schemes used by illegitimate franchisor

- Promise exorbitant profits with meager investments;
- Demand that you "act immediately" before investigating in order to "get in on the ground floor";
- Fail or unable to provide vital statistics on franchise sales, profits, locations, etc.;
- Promise "easy sales" of the franchised product or services;
- Fail to identify company officers or principals;
- Promise profits through chain sales or pyramid schemes in which you make your money by selling other franchises or distributorships;
- Use names, which sound like, but which are not connected with nationally known, reputable business firms; and
- Promise large income from "work-at-home" or spare-time" effort.

6. What are the procedures in applying for a franchise?

Step 1 - The franchise applicant will submit a Letter of Intent to the franchise company, including the following information:

- Name of the interested party
- Expressed interest in a franchise
- Proposed site and location (with complete address and location map)

Step 2 - The franchisor will:

- Do an initial assessment of the proposed site upon receipt of the letter of intent;
- Determine the most feasible business model; and
- Get in touch with franchise applicant and send over the Franchise Qualification Form and brochure.

Step 3 - The franchise applicant will:

- Fill out the Qualification Form; and
- Send it back to the franchisor.

Step 4 - The franchisor will:

- Review the Qualification Form; and
- Schedule meeting with franchise applicant to discuss other procedures.

All other steps will depend on the outcome of the discussions made between the franchisor and the franchisee.

7. Where can you get additional information about franchising?

Philippine Franchise Association (PFA)

Unit 701, OMM – Citra Bldg., San Miguel Avenue,
Ortigas Center, Pasig City
Tel. Nos. (632) 687.0365 to 67
Fax No. (632)687.0635
Email: pfa@nwave.net
Website: <http://www.philippinefranchiseassociation.com>

Association of Filipino Franchisers, Inc.

28 Capricorn Street, Pamplona Park, Las Pinas City
TeleFax No. (632)873.8144
E-mail : info@filfranchisers.com
Website: <http://www.filfranchisers.com>

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Starting A Business



FRANCHISING

1. Who is the franchiser/franchisor and franchisee?

- **Franchisor/Franchiser** – owner of the business who ventured and took risk in trying to establish techniques learned through years of making that business a success. The Franchiser is likewise the owner of the trademark and other product/ services, which are proprietary in nature.
- **Franchisee** – a person or a group of persons who, after studying and investigating the business concept, invest and become partners by establishing a branch of the franchised business.

2. What are the benefits of franchising both to franchisor and franchisee?

- Offers a working business model for running a business;
- Allows a number of people to share brand identification;
- Provides a strong marketing and distribution system;
- Provides a proven method (the operating system) that is successful;
- Provides a brand or trademark recognized by customers;
- Provides technical support that is effective;
- Provides, faster growth due to tested marketing system and multiple outlets established simultaneously, even when the parent company is small;
- Provides effective mechanism for achieving deep market penetration and saturation;
- Motivates managers (franchisees) to expand the business;
- Allows the use of the trademark or trade name;
- Allows access to pertinent trade secrets; and
- Provides benefit from the goodwill of the franchise company.

3. How to select a franchise company

a. Know your budget

- Compare how much you have and how much it would require you to put up your dream business.
- Pick a venture that would still leave you with a decent bank balance.

c. Investigate the franchise company

Significant information to obtain and examine:

- Sales of goods and services through the franchise;
- Profits from royalties based on the franchisee's sales;
- Direct sale of products to the franchisee;
- The value and appeal of the franchise company's product or service;
- The company's sales literature;
- The company's product with the ultimate consumers;
- Quality of the product or service;
- Franchise outlet's perception of the outlet and the products it dispenses;
- Product is rank with competitive products;
- Truthfulness and credibility of product advertising;
- Product appeal;
- Patent or trade secret protection;
- Proprietary position in the market;
- The type of training provided;
- Training curriculum, length of the program and the qualification of the training faculty;
- Provisions for retraining or updating franchisees;
- Special additional cost charged for the training program;
- The type and amount of field support;
- The site selection and territorial practices;
- The kinds and amounts of advertising support;
- The operating policies and restrictions of the franchise; and
- Personal Earnings Potential.

d. Examine the franchise contract

The contract should contain the following:

- Your rights to sell or transfer ownership of the franchise;
- The geographical area and types of business or customers to whom you may sell;
- The nature and extent of your obligation to buy supplies and materials from the franchisor approved sources;
- Your rights to renew or extend the contract beyond the original term of the contract;

- The rights of the franchisor to assign unpaid portions of the initial franchise fee to financial institution or other "holder-due-course";
- The terms and conditions to terminate a contract;
- Description of the exact training and support services that franchisor provides;
- Precise definition of the price, commissions, rental fees, and leases required to own and operate the franchise;
- Exclusive territory awarded to you; and
- State franchise law.

e. Meet the franchisor

- Be sure to get to know those people you will be working most closely with as you build your business.
- Find out who will be providing the operational support and training directly to you and form an opinion about their competence.
- Make sure that any remaining questions or issues you may have are addressed at this meeting.

f. Talk to franchisees

- Visit a sufficient number of the existing franchisees to ensure you have a sense of the prevailing attitudes of the group.

g. Consult experts

- Consult experts to guide you through the franchising process and help you review and discuss unfamiliar topics or materials.

4. What are the negotiations involved in franchising?

Most franchises require the following:

- Upon purchase, immediate payment of "cash down", "initial cash", "cash required", which all refer to the amount of the initial franchise fee;
- Agreement to remit a royalty or commission fee based on gross sales or number of units sold to the franchise firm;
- In some companies, payment of separate fees for training, accounting services, advertising, and rental of equipment or facilities; and
- Computation of the true cost of a franchise, i.e. all special fees, royalties, as well as the interest charges on the unpaid balance of the initial franchise fee.