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2018 Franchise landscape

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Introduction

This report looks at the results of the 31st survey amongst franchisors and franchisees in the UK, conducted on behalf of the British Franchise Association (bfa), in partnership with NatWest. Overall, UK franchising remains in good health and the sector continues to expand and mature.

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Key findings

The overall findings of the report are very positive, with record growth in numerous areas.

The total contribution of franchising to the UK economy is reckoned to be in excess of £17 billion, up over £2 billion since the previous stats in 2015. Furthermore, there has been a significant increase in the estimated overall number of people working in franchising, with over 700,000 people employed in the sector, with a little over half in full-time employment.

While around 70% of franchisees are male, the indications are that around 65% of those employed within franchise units are female. Furthermore, more females are becoming franchisees, with a 20% jump since the 2015 report.

More under 30s are also getting into franchising by becoming franchise business owners, with 18% of all franchisees now under 30. Of the new franchisees under 30, 52% are female, with 37% of all new franchisees in the last 2 years being female.

There are an estimated 48,600 franchised units in the UK, the highest number ever and nearly two times more than 25 years ago, with the number of franchisees reckoned to be around 20,000. That's because around a third of franchisees own and run multiple units.

One in three franchisors also have international operations. Of those who do not currently operate internationally, 4% have a definite business plan to do so, and a further 30% are considering it an as option.

The biggest growth areas for franchising remain personal services and hotel and catering, although store retailing also shows some growth, despite a challenging environment for retail.

Franchisees claimed profitability remains high at 93%, and over two-thirds of franchised units that have been running for five years or more report being either quite or highly profitable. 60% of franchised units turn over more than £250,000. Failure rates for franchises remain very low, with fewer than 1% per year closing due to commercial failure.

£17.2bn
Turnover generated
Up 2.1 bn since 2015
+14%

710,000
People employed in franchising
Up 89,000 since 2015
+14%

48,600
Franchised units in the UK
Up 4,400 since 2015
+10%

18%
of all franchises are under 30

93%
of franchisees claimed profitability in 2018

6 in 10 franchised units turn over more than
£250,000

37% of new franchisees are women
+20% since 2015

65% of people employed in franchisee businesses are women

Multi-unit franchising is on the up at
36%
+7% since 2015

Source: The British Franchise Association/NatWest Franchise Survey 2017.

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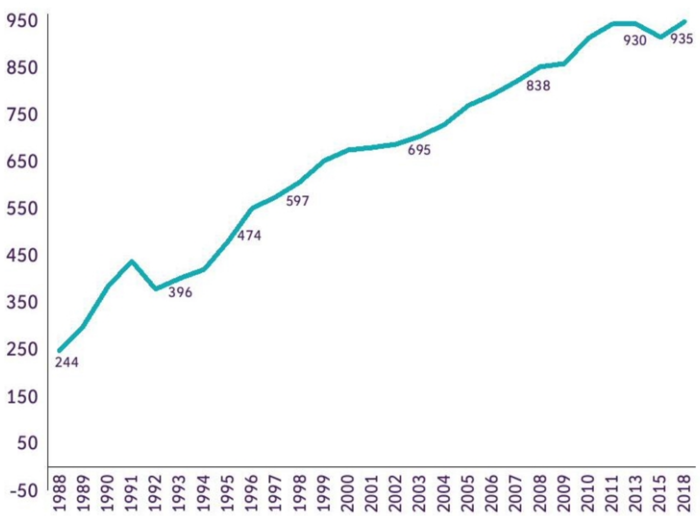
The size and scale of franchising in the UK

There are 935 franchise systems operating in the UK

The last time the survey was conducted in 2015, the bfa made a substantial revision to make sure that all active franchise systems were included and all those that were no longer active were removed. This resulted in a reduction in system numbers but an increase in unit numbers overall. When a further revision took place this year, a net 34 systems were added. Figure 1 shows that in the 22 years since 1996, the number of active UK franchise systems has doubled.

Figure 1: Number of UK franchise systems over time



Source: bfa/NatWest list of all UK franchise systems

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The franchise sector is evolving

In the past 7 years, the number of systems has only increased slightly, from 929 to 935 (about 0.6%), whereas the number of franchised units has increased by almost 25%. The main driver of this has been increased growth amongst the very largest franchise systems in the hotel and catering sector and the personal services sector over the past 5 to 10 years.

Franchising systems in the UK continue to be predominantly UK-owned and run

4 in 5 of UK franchise systems are run by the owner of the system. The remainder are split evenly between subsidiaries and master licence holder (Figure 2).

Figure 2: Ownership of franchise systems

	% based on 3-year rolling averages															
	2007		2008		2009		2010		2011		2013		2015		2018	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Ultimate owner of the system	604	75	626	75	648	77	700	78	710	77	760	82	730	81	747	79
Subsidiary of parent company that owns the system	89	11	100	12	101	12	107	12	117	13	87	9	90	9	87	12
Master licensee of another company that owns the system	113	14	109	13	93	11	90	10	99	11	80	9	81	10	96	10

Source: Q1a Base: All franchisors

Coffee Shops

- Costa Coffee had just over 170 units 10 years ago, and now has 2,300.
- Similarly, there are around 400 franchised Starbucks stores in the UK.

Fast Food

- KFC has also tripled in size with regards to the number of franchised units over the same period.
- Subway was estimated to have around 1,500 units 10 years ago and now has around 2,200.

Care Homes

- Bluebird Care has grown from 35 to 188 units over the past 10 years.
- Home Instead has grown from 18 to 190 units over the same period.

Gyms and Fitness

- Anytime Fitness first appeared in 2013 with 8 units and now has 133 units.

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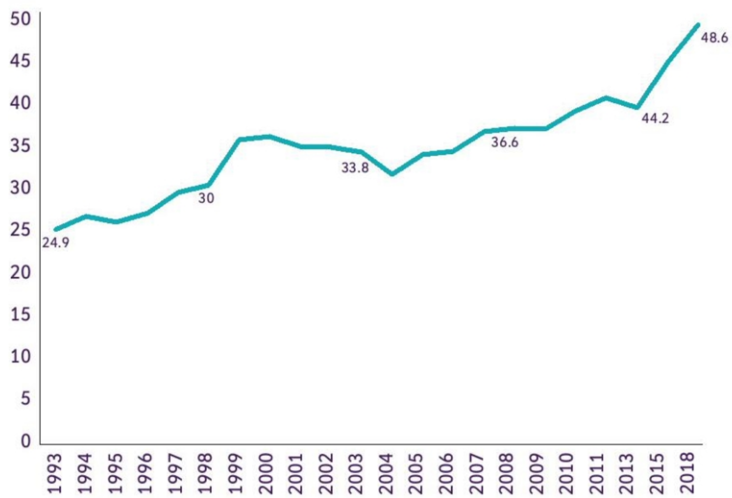
There are now estimated to be 48,600 franchised units in the UK

It's estimated that the number of franchised units has nearly doubled in the past 25 years. In recent years (Figure 3) much of this increase can be accounted for by the hotel & catering sector. This is home to some of the largest systems such as the big pub chains, fast food chains and coffee shop chains. The top 10 franchise systems account for around a third of the total number of franchised units.

Figure 3: Number of franchised units (000s)



The number of personal services franchised units has more than doubled in the past

10 years

We monitored six business categories within franchising

For the past 17 years, we have classified franchised businesses according to categories developed by the European Franchise Federation (EFF). While we can see that the EFF are (experimentally) moving towards the use of the NACE classification system, we do not think this is a good fit at this time.

The categories we use are as follows:

Hotel & catering: which includes hotels, coffee houses, fast food chains etc.

Store retailing: everything from travel agencies and shoe shops to bathroom centres.

Personal services: entertainment and tutoring for children, personal trainers, pet services etc.

Property services: including estate agencies as well as plumbing, cleaning and gardening etc.

Transport & vehicle services: couriers, car rental, vehicle repair.

Business & commercial services: printing, office supplies, training, recruitment, accountancy.

In this document we frequently refer to the differences between these categories in terms of performance, structure and other characteristics.

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In 2018, more systems were added in every category, although the largest growth was in hotel & catering and personal services

Figure 4: Number of franchise systems by category

	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009	2010	2011	2013	2015	2018	% Change since 2013
Hotel and Catering	119	117	116	120	115	112	111	118	128	126	130	133	135	144	152	+6%
Store Retailing	91	86	86	89	91	97	101	101	100	97	104	107	105	86	92	+7%
Personal Services	114	113	111	110	131	144	153	159	171	181	197	197	213	234	248	+6%
Property Services	125	140	147	152	165	182	189	202	205	203	215	237	228	211	212	+<0.5%
Transport & Vehicle Services	75	76	72	76	64	66	70	73	71	68	68	65	65	63	64	+2%
Business and Commercial Services	141	140	145	152	152	158	157	156	163	170	186	190	184	163	167	+2%
TOTAL	665	669	677	695	718	759	781	809	838	845	900	929	930	901	935	**+4%**

Source: bfa/NatWest list of all UK franchise systems
*NB: Dairy now included within hotel and catering

The composition of the franchise industry continues to change

The number of units in personal services franchises has more than doubled over the past 10 years and the number of units in hotel and catering franchises has risen by 55%. These two sectors now account for 60% of the industry by unit numbers, compared with 40% in 2008 (Figure 5).

Business & commercial services have become less significant over time and now represent less than

10%

of the total number of franchised units

Figure 5: Number of UK franchise units by category

						Survey data (3-year rolling average) plus known franchisors (500+ units)		Data from list of franchisors				
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2013	2015	2018
Hotel and Catering	8,195	9,180	9,750	9,750	10,100	9,000	9,900	10,100	10,100	10,000	12,884	**15,730**
Store Retailing	4,390	4,580	4,785	4,860	5,100	3,700	4,400	5,300	5,600	5,400	5,024	**5,794**
Personal Services	4,540	4,280	4,740	4,950	5,900	6,000	6,500	8,200	8,900	8,700	12,640	**13,789**
Property Services	5,545	6,175	6,535	6,575	6,650	8,200	7,200	6,200	6,900	6,500	6,280	**5,920**
Transport & Vehicle Services	2,545	2,410	2,575	2,560	2,925	2,700	2,200	2,900	2,500	2,500	2,121	**2,545**
Business and Commercial Services	8,590 Zurich withdraws from franchising	4,740	5,075	5,205	5,525	7,000	6,300	5,900	6,100	5,900	5,243	**4,780**
TOTAL	33,805	31,365	33,460	33,900	36,200	36,600	36,500	38,600	40,100	39,000	44,192	48,588

Source: bfa/NatWest list of all UK franchise systems
*NB: Dairy now included within hotel and catering

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It might appear surprising that in a time of relative austerity, these service-based businesses, which could be considered a luxury, have thrived. However, purchasing from a franchised brand could be seen as less risky to a customer, due to perceived reliability and consistency.

In comparison, the number of units in store retailing appear flat over time. However, this should be viewed in the context of a highly challenging business environment, where many of the high street's biggest names (Toys "R" Us, BHS and more recently House of Fraser), have struggled to compete with online retailers.

Franchising is a completely different model for retail in that the popularity of stores tends to rise and fall more organically based on supply and demand, rather than being dictated by a head office strategy on the opening or closing of stores.

Around
1/3
of franchisees now operate multiple units

Multi-unit ownership is on the up

In 2013, once starting to notice an increasing trend of multi-unit ownership, we specifically started asking franchisees whether they owned a single unit or multiple units.

In 2013, 25% said that they owned more than one unit. By 2015, this had risen to 29%, and in this year's survey, 36% said they owned more than one unit.

There are some interesting dynamics here which will be worth watching over time:

- As multi-unit franchises become more common, the bargaining power and influence of the multi-franchisee when compared with the franchisor is likely to increase.
- Multi-unit franchisees are (presumably) in a prime position to acquire the most profitable franchised units as these become available, further entrenching the degree of influence they hold.

A note of caution should be added around the relatively small base size on this measure. It now appears likely that around one in three franchisees operate more than one franchised unit (Figure 6), with 19 of the 198 franchisees we spoke with running six or more units. This indicates that the actual number of franchisees is stable (at around 20,000) or perhaps even falling as the more successful franchisees take on more units.

Figure 6: Franchise unit ownership by unit status

	All units %	All units% (2015)	Hotel & Catering %	Store Retailing* %	Personal Services %	Property Services %	Transport Vehicle services* %	Business/ comms services* (%)
Single units	64	71	40	63	81	86	75	76
Multiple units	36	29	60	37	19	14	25	24
Mean number of other units	4.87	5.34	6.56	3.90	2.33	1.40	2.00	1.20

Source: Q6a/b, Base: All franchisees
*Base below 30

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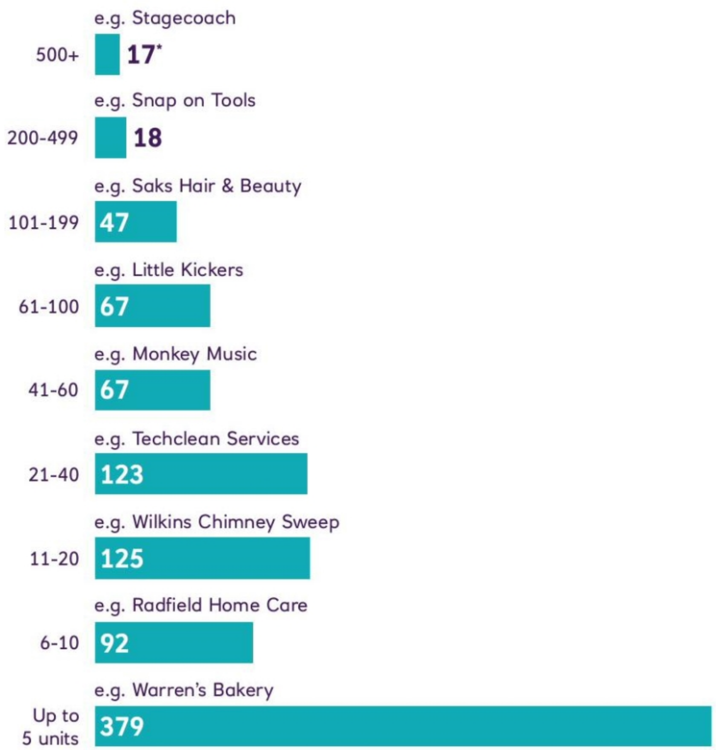
The top 10 franchise systems combined account for over a third of the total number of units

Figure 7: Scale of systems by unit number



Base: All franchisors
Source: bfa/NatWest list of all UK franchise systems
*Number of companies falling into the unit number size

Nearly 4 in 10 systems can be operated from a home office

While there is a skew towards needing a shop or retail premises (mainly caused by the larger systems in retail and hotel and catering), many smaller franchises can be run from a home office with fairly minimal capital requirements (Figure 8).

Figure 8: Place the franchise can be run from

	Franchisors		Franchisees	
	All	Excluding Store Retail and Hotel and Catering	All	Excluding Store Retail and Hotel and Catering
A home office	38%	40%	16%	29%
A shop/retail premises	29%	19%	51%	16%
An office unit	17%	20%	12%	21%
A van	15%	14%	7%	15%
A factory unit/ business park premises/ other business premises	12%	14%	14%	20%

Source: Q25a, Base: All franchisors/Q19a, Base: All franchisees

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710,000 people are now employed in UK franchising

There does appear to be a trend towards higher numbers employed in UK franchising and, importantly, there is a mix of both part and full-time jobs, suitable for different working requirements (Figure 9).

Figure 9: Total number employed in UK franchising (000s)

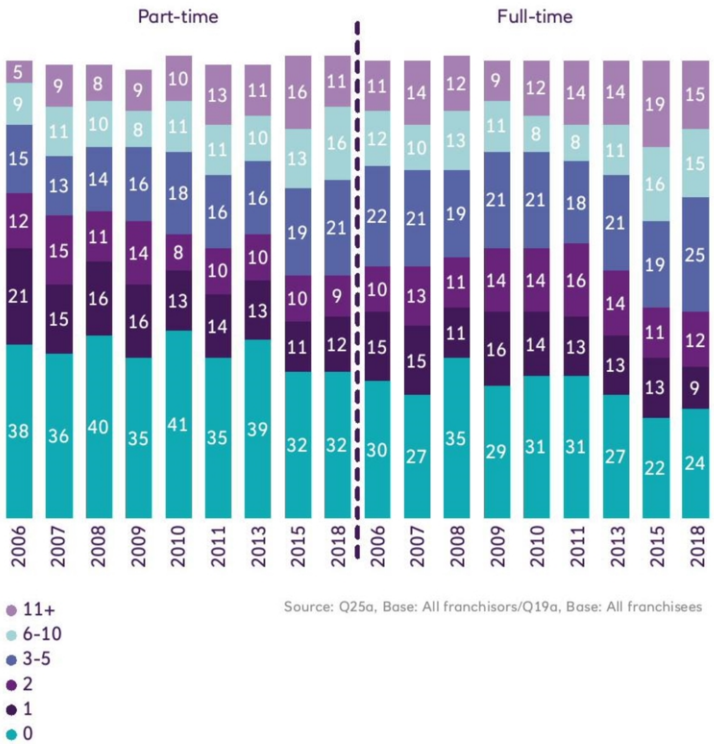
* Figures rounded to nearest thousand
**Zurich withdrawal from franchising
2015 and 2018 = Three year rolling averages

70% of franchisees are male

65% of those employed within franchise units are female

Three quarters of franchisee units employ staff and 30% employ six or more staff

Figure 10: Number of part-time and full-time employees



Source: Q25a, Base: All franchisors/Q19a, Base: All franchisees

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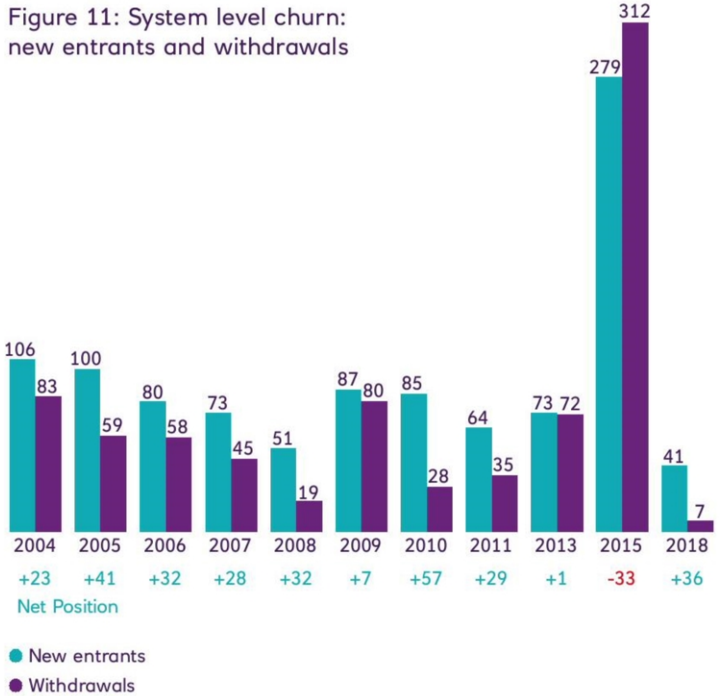
Dynamics within the franchise industry

After an edit of the list of franchise systems in 2015, fewer revisions were required in 2018 and only seven systems have been removed (Figure 11).

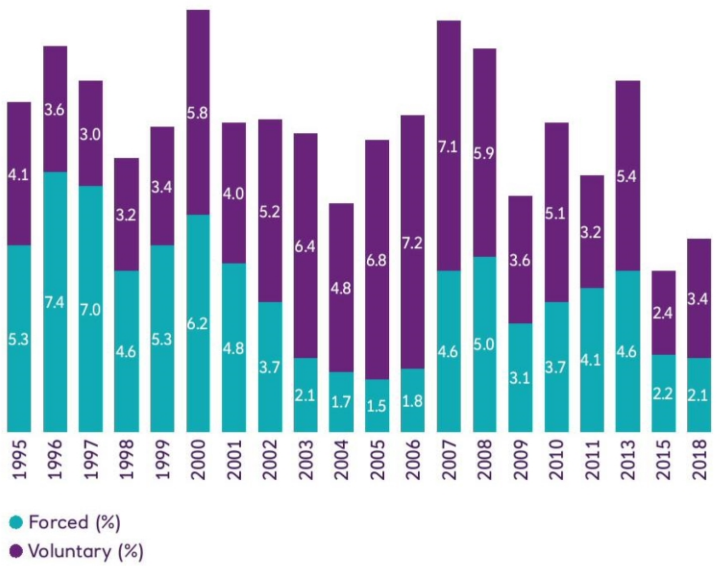
Figure 11: System level churn: new entrants and withdrawals



There's little or no evidence that franchisees are being forced out of business

Levels of churn at a unit level (reported by franchisors) remain low, with just over 2% experiencing forced change during the past few years (Figure 12).

Figure 12: Proportion of UK franchised units experiencing change



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Low failure rates for franchise SMEs

Statistics show that around half of all non-franchised start-ups fail within five years. It's unsurprising that banks in the UK have typically favoured lending to franchised businesses over other stand-alone small businesses. Franchised businesses have the benefit of an established brand and a proven business model and are therefore much less likely to fail, as Figure 13 below illustrates.

Figure 13: Unit changes reported by franchisors

	Changed Franchisee	Bought Back	Closed Down	TOTAL	% All Units
All Reasons:	**1249**	**569**	**774**	**2591**	**5.5%**
Commercial failure	62	93	276	433	0.9%
Dispute	31	45	10	87	0.2%
Realising investment	304	242	14	560	1.2%
Retirement	336	45	76	457	1.0%
Ill health/domestic	304	101	184	590	1.3%
Other reasons	211	41	212	464	1.0%

Source: Q18a/Q18b, Base: All franchisors

Roughly half of all franchised businesses are resales, and this proportion appears to be stabilising

Logically, as there are more mature systems in franchising, many new franchisees take over existing businesses rather than starting up in a new territory from scratch.

Figure 14: Predicted level of resales for the next year (%)

	Year of Forecast								
	2006	2007	2008	2009	2010	2011	2013	2015	2018
% franchise systems expecting to offer resales	29%	52%	53%	49%	51%	44%	58%	45%	51%
Average no. of resale units per system	4.5	3.3	5.7	4.1	3.7	4.5	4.2	4.8	3.4
Estimated total no. of resale units next year	1,020	1,400	2,500	1,679	1,693	1,829	2,274	1,932	1,640

Base: All franchisors
Source: Q7a, Base: All franchisors

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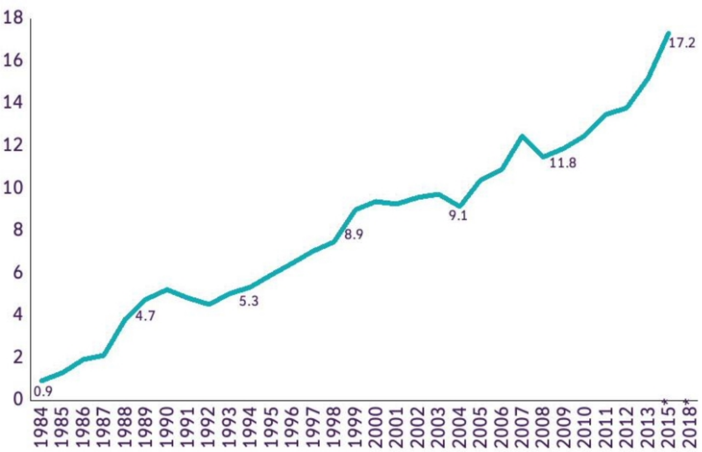
The economic contribution of franchising

Franchising's contribution to UK plc is now estimated to be over

£17bn

The overall figure for the contribution of franchising is calculated based on the average turnover for franchisees, multiplied by the number of units (adjusted for franchisor businesses themselves and the dairy industry). The steep rise is therefore directly related to the somewhat larger franchised businesses we are seeing on average in the survey.

Figure 15: Franchising industry turnover (£bn)

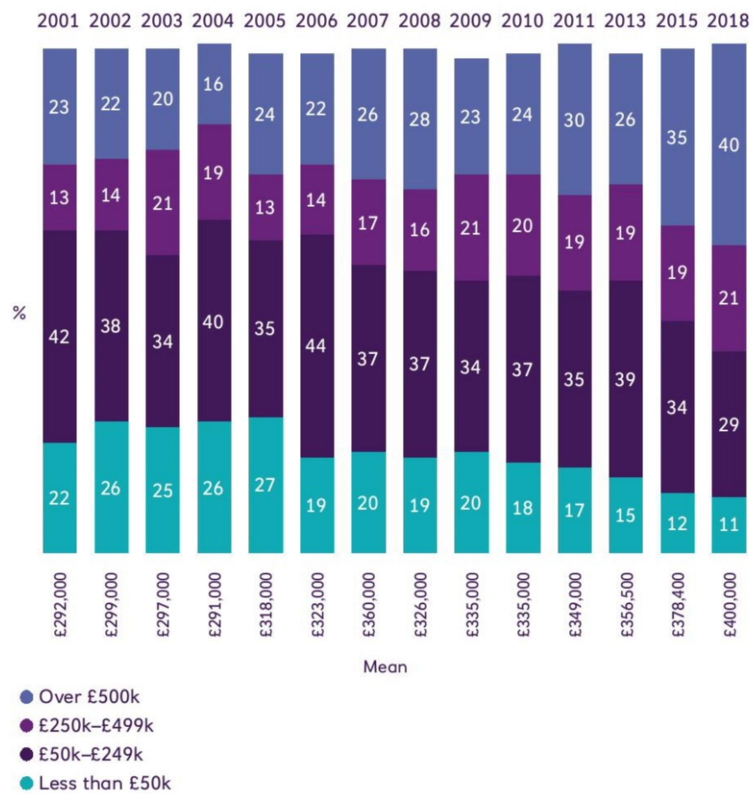


*Rolling for past 3 data points used in 2015 and 2018

Over half of franchised businesses now turn over more than a quarter of a million pounds

In 2018, 6 of the franchisees we spoke to reported turnover in excess of £2m (Figure 16). 2 in 5 stated that their turnover was more than their franchisor led them to expect.

Figure 16: Franchise unit turnover



Source: Q28a-h, Base: All franchisees providing their turnover

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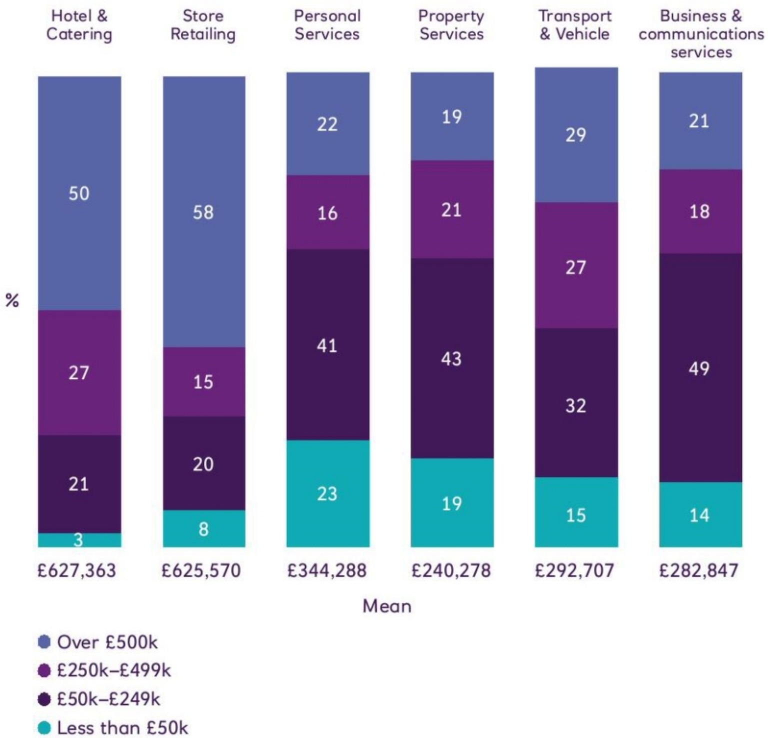
Business sector, predictably, is a key influencer on typical revenues

While this data is based on averages and is therefore subject to variation (between the mix of larger and smaller businesses in each sector), it does illustrate that most franchised businesses are sizeable enterprises.

Figure 17: Annual turnover of franchise units by sector



Source: Q28a-h, Base: All franchisees providing their turnover

Profitability levels remain high and the proportion of those claiming to be highly profitable is the largest on record at 14%

The saying goes that while turnover is vanity, profit is sanity. Looking at the more established franchises that have been going for 5 years or more, 2 in 5 are highly profitable and only 2% are loss-making (Figure 18).

Figure 18: Franchisee claimed unit profitability

Source; Q17, Base: All franchisees providing their turnover

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There are no significant differences between smaller and larger businesses in terms of profitability

When we look at profitability at a sector level we see that:

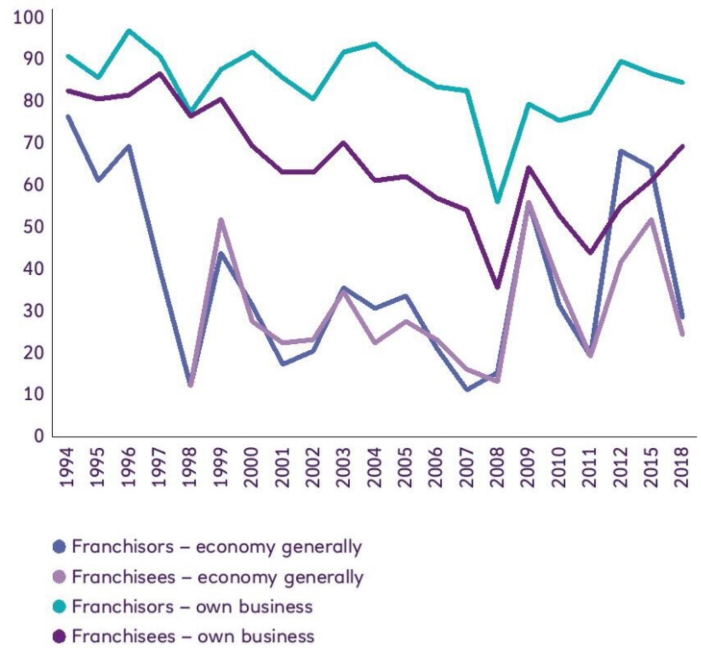
- 96% of hotel & catering franchises are profitable.
- Business services and retail have 76% and 78% profitability respectively.
- 93% of businesses operating from a shop or retail premises are profitable (and almost half of these are quite or highly profitable). 73% of businesses operating from a home or home office are profitable.
- Franchisees running multiple units tend to report higher profitability in general.
- While there are no significant differences between smaller and larger businesses in terms of profitability, those who have invested more than £20k when setting up the business tend to have higher profitability than those who have invested less.

Overall this is a very encouraging set of figures for the sector, with only 3 of 198 businesses surveyed saying that they were definitely 'loss-making'.

Brexit nerves? Franchisees and franchisors remain confident in their own businesses but are less confident about the economy

The data shows that it's not unusual for those in the franchise industry to feel more confident about their own businesses than about the economy in general. However, it is a bit unusual to see a rise in one measure and a fall in the other (Figure 19).

Figure 19: Business and economic confidence % expecting improvements over next 12 months



Source: Q15a/Q16, Base: All franchisees; Source: Q16/Q17, Base: All franchisors

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Regional distribution of franchising in the UK

Franchising is becoming more widespread

Historically, franchising was highly concentrated around the South East and West Midlands, but over the past two decades it has become more widespread across the country (Figure 20). However, franchises continue to be focused around the main urban centres, where a greater population density makes for a larger potential marketplace (Figure 21).

Figure 20: Regional distribution of franchised units

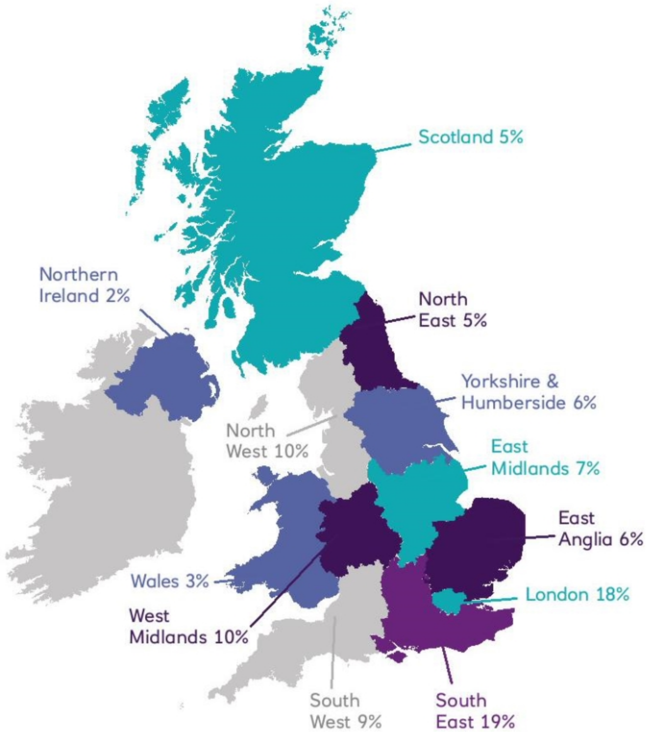
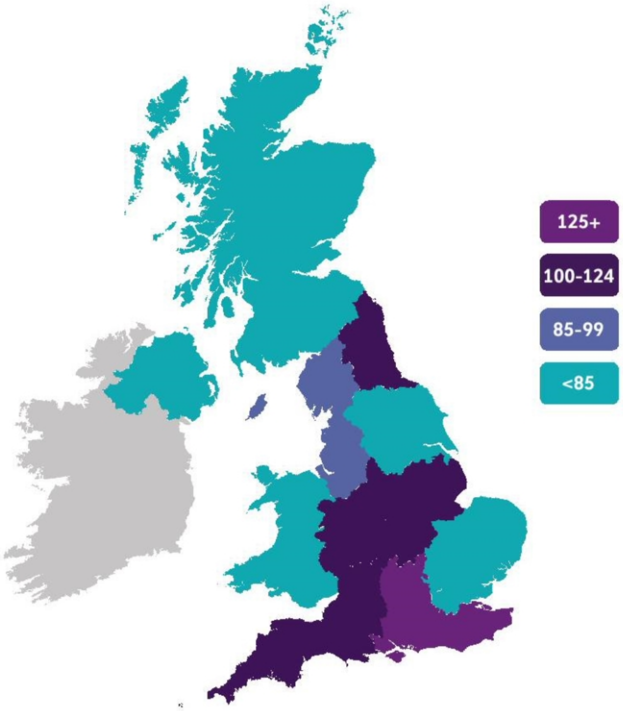


Figure 21: Indexed to UK population



Source: Q5, Base: All franchisors

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Figure 22: Franchised businesses continue to make an important contribution to the local economy of all UK regions

	Presence of All Franchise Systems in Region	Regional Distribution of Franchise Units		2015 Implied Annual Turnover from Franchising £ Billion	2018 Implied Annual Turnover from Franchising £ Billion	% Change in Implied Annual Turnover from Franchising £ Billion
	Average 2013-2018 %	Average 2013-2018 %	Indexed on UK Popn.* %			
London	72%	18%	150	2.8	3.1	+8%
Other South East	82%	19%	140	2.9	3.2	+11%
South West	64%	9%	111	1.4	1.6	+10%
East Anglia	56%	6%	64	1.0	1.0	+1%
West Midlands	64%	10%	111	1.5	1.7	+8%
East Midlands	52%	7%	102	1.0	1.2	+14%
North West	62%	10%	87	1.6	1.7	+7%
Yorkshire	51%	6%	70	0.9	1.0	+11%
North/North East	46%	5%	107	0.7	0.8	+7%
Wales	40%	3%	66	0.4	0.5	+18%
Scotland	39%	5%	53	0.8	0.8	-2%
Northern Ireland	26%	2%	76	0.3	0.4	+21%

Source: Q5. Base: All Franchisors
*Indices are based on the regional spread of the UK population

The international dimension of franchising

One in three UK franchisors also have international operations

A third of franchisors award the master licences or control the franchising of units outside the UK in addition to their UK operations.

The regional distribution of international franchise export shows:

- 22% operate in Europe (including Republic of Ireland)
- 4% operate in the US
- 15% operate in other locations worldwide

The majority grant a master licence or licences to international franchisees, although a number also use alternative methods to allow operations abroad:

- 60% issue a master licence in one or more markets
- 23% direct operations from the UK in one or more markets
- 7% open an office abroad and 8% have joint ventures in one or more markets

Of those who do not currently operate internationally, 4% have a definite business plan to do so, and a further 30% are considering it as an option.

For those looking to expand internationally, most have ambitions in Europe (including Republic of Ireland), or English-speaking countries (USA/Canada/Australia/New Zealand).

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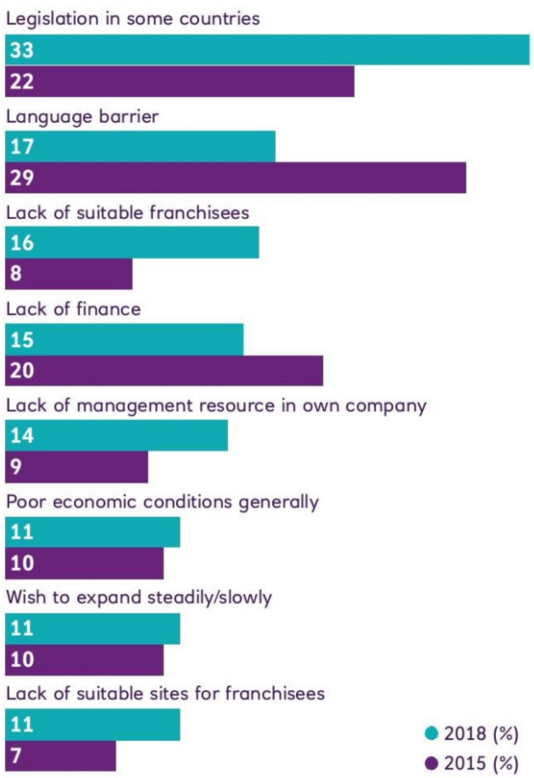
Country-specific legislation is an increasing barrier to international franchising

Legislation has overtaken language differences as the primary barrier of international expansion, with a lack of suitable franchisees also emerging as a more prominent barrier to growth outside of the UK. Other barriers to international franchising include a lack of finance and management resource, as well as broader concerns about economic conditions (Figure 23).

Figure 23: Primary barriers to growth in international franchised units



Source: Q15c, Base: All franchisors with/planning international operations

Franchisee recruitment

The proportion of female franchisees in 2018 is the highest since the survey stats began, with 30% of all franchisees being female.

This looks likely to rise even further in the future, with 37% of franchisee recruits in the past two years being female, a significant rise of 20% since 2015 (Figure 24). Although there has been an increase in the proportion of under-30s becoming franchisees, the average age for newer franchisees remains consistent over time at around 40 years old. The typical franchisee is in their mid-40s.

Figure 24: Profile characteristics of franchisees (%)

	Profile characteristics of franchisees				New recruits – all held franchise 2yrs or less			
	2005	2011	2015	2018	2005	2011	2015	2018
Age	%	%	%	%	%	%	%	%
Up to 30	10	5	3	18	17	14	19	27
31 – 40	20	15	18	24	27	31	22	30
41 – 50	32	31	35	27	35	39	49	24
Over 50	37	49	43	35	20	19	14	19
Typical (mean) age	46	49	49	44	41	41	41	40
Male	80	72	77	70	84	62	83	63
Female	20	28	23	30	16	38	17	37

Source: Q32, Base: All franchisees

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Franchisor/franchisee relationships

Background to the survey

Technical appendix: survey method

Franchisors experience a wide range of challenges when looking to recruit new franchisees

The main reasons for not granting a franchise include the candidate not having sufficient capital, having a lack of business acumen or performing badly at the interview stage. Somewhat alarmingly, over one in three mentioned candidates failing to attend scheduled appointments (Figure 25).

Figure 25: Main reasons for not granting a franchise

Source: Q8, Base: All franchisors

A broad range of recruitment channels are used by franchisors

The method of recruiting new franchisees is changing. Over the past 10 years, the two most consistent methods of recruiting new franchisees have been the franchisor's website and word of mouth/networking (Figure 26).

Aside from these two key methods, the importance of other recruitment channels has notably changed over the past few years. For example, 10 years ago, magazine advertising was still significant, with one in three franchisors mentioning this as useful. However, in the most recent survey, only 16% mentioned this. In contrast, social media, which wasn't even measured 10 years ago, was mentioned by 40% of franchisors as particularly useful in 2018.

There was a period when third-party brokers, intermediaries and matchmaking services were significant to recruitment, but this seemed to peak around 5 years ago, when 4 in 10 franchisors found this useful. In 2018, only 1 in 10 said this was a useful method.

The survey also asked franchisors which websites they have used to recruit new franchisees in the past 12 months. The bfa website, whichfranchise.com and franchisedirect.co.uk, have been relatively consistent performers at the top of the list during the past 10 years. However, in a sector where there are now at least 15 websites dedicated to the sector, there are bound to be some winners and losers. As witnessed in other sectors, it seems to be the case that greater competition favours the market leader.

The median amount spent by franchisors externally on recruiting franchisees (advertising vacancies) is just over £9,500.

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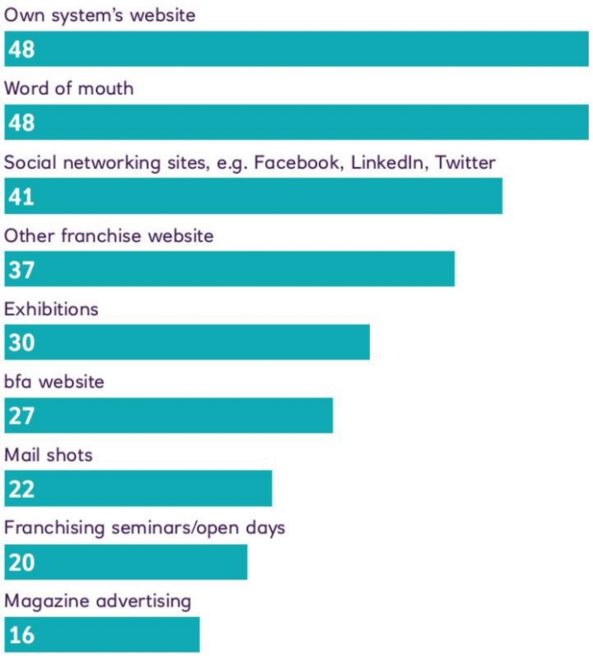
Figure 26: Franchisors' most useful recruitment channels

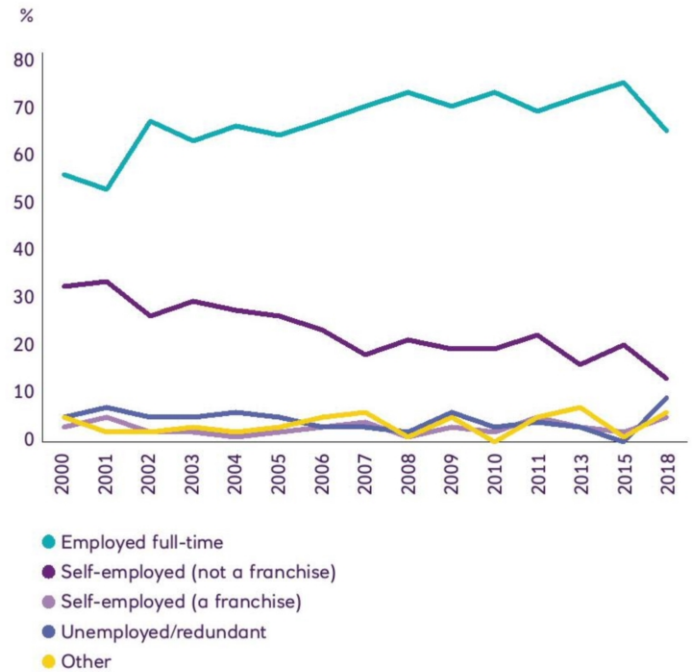


Source: Q9, Base: All franchisors

The path towards becoming a franchisee

Up until 2015, the proportion of new franchisees coming from inside the industry had steadily risen. However, 2018 sees this trend reverse, as more franchisees enter from previous unemployment/having been made redundant (Figure 27).

Figure 27: Working status prior to taking on a franchise (those not previously employed by a franchise)



Source: Q20b, Base: All new to franchising

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In 2018, amongst those new to franchising in the last four years:

- 28% had worked within the industry, 10% had worked for a franchisor and 19% had worked for a franchisee.
- Of those new to franchising, 64% had been employed and 13% had been self-employed. 9% had been unemployed/made redundant.
- Awareness of franchising was most likely to have come from a friend or relative (21%), with 15% hearing about it from a colleague and 8% at an exhibition. Specific franchise brand awareness tends to come from similar sources.
- Just over half (56%) only looked at one franchise before making their final decision, although 2.6 brands are considered on average. The majority look at franchises within the same sector (60%), although 40% considered brands from more than one industry.

Having a personal interest in the business field is key when choosing between franchise brands, with growth potential also important

Figure 28: Reasons for selecting franchise brand

Source: Q24c, Base: All franchisees who considered more than one franchise

Before acquiring their franchise, most did a wide range of research, with 69% assessing whether the franchise fees were fair and value for money, 62% seeking advice from existing franchisees about their business profitability and 58% asking for opinions of the franchisor. Over half (57%) also considered the impact of running the business on their family.

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Competition for the larger franchises is fierce

Over a third of the larger (21+ unit) systems we spoke with receive more than 400 leads annually from all sources. Most have systems in place to filter this down to a much smaller number of potential candidates for interview. Of those applying to become a franchisee, only around 1% are successful.

It typically takes around 18 weeks from the first contact to the point where a new franchisee signs a franchise agreement, and a further 10 weeks before they start trading.

Figure 29: Small systems (<20 units)

Larger systems (>20 units)

Median figures

Source: Q10/Q11a/Q11b/Q11c/Q12a/Q12b/Q13, Base: All franchisors

Costs, fees and ongoing charges

86% of franchisors do not charge for goodwill in the resale value for franchisees taking over an existing territory/business. For the minority that do, it typically represents 35% of the resale value.

The method used to calculate the resale value varies between franchisors, with the most common method being to use a multiple of EBITDA (25%), particularly amongst those operating in the property services sector. On average, the multiple used to calculate the resale value of a franchise unit is 1.9.

However, only 37% of franchisees purchase a resale, with the majority (60%) instead starting it up from scratch. Franchises that have employees are more likely to take over an existing business than those who do not have any employees (40% vs. 16%).

There are also variations in the purchase strategy by sector, with those with fixed business premises more likely to purchase a resale (e.g. hotels and catering), while those with more flexible operating structures (e.g. personal services sector) are more likely to opt to start from scratch.

4 in 10 franchisees needed to borrow money in order to set up in business.

60%

choose to start their franchise unit from scratch, although resales remain important in some sectors

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The franchise licence fee is the most common cost encountered by new franchisees

Figure 30: Financial consideration when starting a franchise (%)

Source: Q20a/Q20b/Q21a Base: Franchisors (excludes 'don't knows')/All making each charge

*Q27 Base: Franchisees (excludes 'don't knows' and 'refused')

Mean scores only provide a very rough illustration of set-up costs; it's better to consider some examples

While the mean figure for start-up costs for franchisees is about £100k, this conceals wide variation. Logically, the most expensive franchises to set up (or take over) are those which require considerable expense, such as refitting a building as a branded coffee shop or taking over a hotel.

To provide some examples from the franchisee survey:

- The cost of setting up a franchised gym business was quoted at £450,000 and the cost of setting up a care home business was given as £200,000.
- Whereas, the cost of setting up a business which offers dancing for toddlers was given as about £5,000 in total.

From the franchisors we spoke to, more than half told us that the initial costs to a franchisee wanting to set up a franchised business with them was less than £40,000, so there are plenty of opportunities out there for franchisees to start a business with a relatively modest outlay.

Again, while the higher figures are skewed towards location-based businesses and those requiring a lot of collateral (signs, machinery etc.) or stock, there are lower-cost options available within every sector, including hotel & catering and store retail.

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The relationship between franchisor and franchisees is often mutually beneficial

The franchise structure allows access to a business model that has proven successful, as well as the tools needed to achieve this, such as training, marketing materials and ancillary services.

To provide these, however, many franchisors require their franchisees to contribute towards the costs incurred, totalling to an average of 12% of their sales. The most common fees charged by franchisors to franchisees include:

- Management service fee
- Contribution to advertising
- IT support fee

In addition, just over half of franchisors (56%) supply their franchisees with the stock or supplies required to carry out their business, with 4 in 10 applying a mark-up for these (on average 9%).

In most cases, however, the franchisor does not own the premises from which their franchisees operate, with only 11% having some or all of their franchisees as tenants.

Franchisor/franchisee relationships

There is generally a strong and ongoing relationship between the franchisee and franchisor

The vast majority of franchisees have contact with their franchisor's support staff at least monthly (90%), with a third having contact most days. Franchisees are largely happy with the support provided, with 48% rating it as excellent, and a further 31% rating it as good. Just 5% rate the support received from the franchisor as poor.

In addition to ongoing contact, 91% of franchisors report that at least some of their franchisees discuss their long-term business plans with them, most commonly around:

- Local marketing/advertising
- Expansion plans
- Retirement/exit strategy

The individual franchisees are less likely to report discussing long-term plans with their franchisor (58%), although the topics of discussion are largely similar to those highlighted by franchisors.

The minority who are not satisfied with the relationship they have with the franchisors cite a lack of direct support and original promises not being met.

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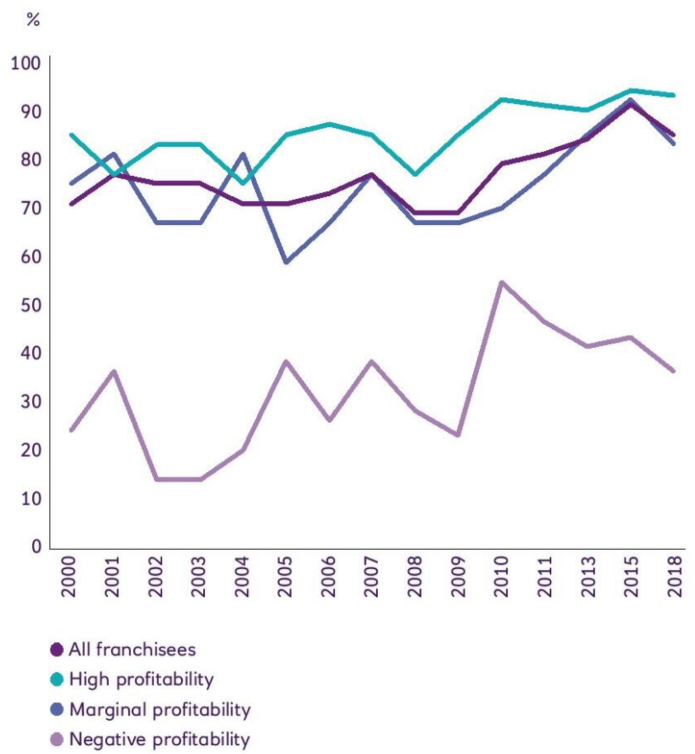
The franchisee/franchisor relationship tends to be good, particularly for franchisees making a profit

Figure 31: Net satisfaction with franchisor relationships ('Definitely/Mainly Satisfied' minus 'Definitely/Mainly Dissatisfied)



Source: Q13a, Base: All Franchisees
Please note the base for 'Negative profitably' is a small sample size of 15

A number of benefits are identified for being part of a franchise system rather than being a non-franchised small-medium enterprise

The top three benefits identified are the support provided, a pre-existing perception of quality and being able to adopt a predefined, standardised product/service (Figure 32). Despite this, not all franchisees choose to promote themselves as a franchise, with 39% deciding not to emphasise this to either suppliers or customers.

Figure 32: Perceived benefits of being a franchisee (2018)

Source: Q11, Q12, Base: All Franchisees

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Background to the survey

Primary research was conducted using computer-aided telephone interviewing (CATI) between the end of 2018 and the beginning of 2017. Interviews were completed with both franchisees and franchisors, speaking to directors and managers of franchise systems in addition to owners/ partners of franchise units. This report combines these primary survey results with external industry experts and statistical sources.

The authors, the bfa and NatWest, would like to thank all those franchisors and franchisees for their time in completing the survey with our interviewers. Without the continued engagement of these audiences, the survey would not be possible.

Within the research agency BVA BDRC Continental, the principal authors of this report are Richard Smith, Director of BVA BDRC and Bethan Cooke, Associate Director.

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Technical appendix: survey method

What constitutes a franchise system?

Businesses included in the bfa NatWest Franchise Survey are based on the following criteria:

1. Businesses that involve a trademark, a method of trading and a licence to use the trademark, which all franchisees must adopt and pay for.
2. The franchisee is able to sell the business on to a third party with the benefit of the goodwill derived from developing the business over time.
3. The system is actively franchising – we exclude those who have announced plans to franchise, but do not currently operate any functioning (franchised) units, as well as those that have withdrawn from the franchising format, but continue to trade exclusively via company-owned outlets.

Within unit numbers we exclude the estimated 14,000 units that are owned and run directly by the franchisor (and therefore are not franchised).

Calculating the size and scale of the franchising industry

In order to understand the health of the industry, it's important to have an accurate measure of the 'total number of franchised units'. Identifying this number is not straightforward due to varying availability and unit figures published online or in franchise directories.

In order to bridge this gap in information, the figures detailed in this document are produced by combining our own sample database with database sources that are available for the largest franchises. Sources used to compile our database are diverse and include www.franchiseinfo.co.uk and other online lists of systems known to be operating in the UK and the proprietary databases of the bfa and NatWest.

From these sources and from information built up over previous years, a 'long list' is compiled. This list is then subject to intensive review by industry experts at the British Franchise Association and NatWest's Franchise Section, until all parties are satisfied that only active systems are included. The authors of this report would like to thank these sources for their assistance.

In addition to this, over recent years, we have been able to populate our own sample database with reported unit numbers from the survey, making it the most accurate and reliable measure available of the actual number of franchised units in the UK.

Statistical confidence

Note on statistical confidence

Much of this report is based upon the findings of survey research studies, to which statistical confidence limits apply.

Taking the 95% confidence interval, the following indicative ranges apply to the survey findings:

Survey findings at or about

	5%/95%	20%/80%	50%
Franchisor survey (n=133)	+/-3%	+/-5%	+/-7%
Franchisor survey (n=198)	+/-3%	+/-6%	+/-7%

Note that the finite population correction applies to the franchisor sample. Since the sample is a substantial proportion (16%) of the population, this enhances our statistical confidence in the survey findings.

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This report was commissioned by the British Franchise Association in partnership with NatWest.

About the British Franchise Association (bfa)

The bfa is the voice of ethical franchising in the UK. As well as providing information and advice to businesses planning a franchise, the bfa work closely with their members to help develop expertise in the industry.

The bfa was formed to act in the interests of the industry and to assess and accredit franchising companies against strict criteria. They look at the structure of the franchise business, terms of contracts between franchisor and franchisee, and test business systems to encourage future success as a franchise.

The bfa engage with franchisees by:

- Developing awareness campaigns to consumers
- Launching industry recognised qualifications – i.e. the Qualified Franchise Professional (QFP)
- Developing nationally recognised educational franchise seminars
- Launching the first UK Franchise Trust whose trustees help to educate individuals and develop the necessary skills and capabilities

For more information, just visit www.thebfa.org

Commissioned by: bfa

In partnership with: NatWest

Conducted by: BVA BDRC